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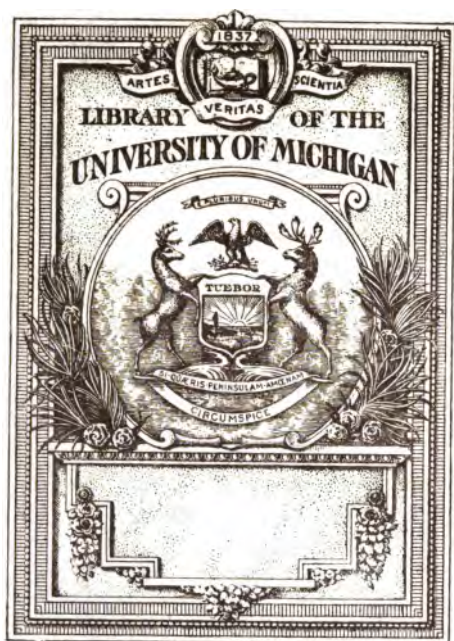
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BY SAMUEL F. RACINE, C. P. A.

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Accounting Students' Series

Guide to the Study of Accounting

By

SAMUEL F. RACINE

Certified Public Accountant

1916

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***THE APPLIED THEORY OF ACCOUNTS**

BY PAUL JOSEPH ESQUERRE, C. P. A.

I. THE COPARTNERSHIP.

20. Distinguish between limited and general partnerships.

22. Define nominal partner.

24. Give a number of rules affecting the partners, in their relationship to the firm, where they have no articles of copartnership.

25. How do advances by partners to the firm rank in case of bankruptcy?

26. Is a surviving partner entitled to use the firm name of the old concern without compensating the estate of the deceased partner? Give the rule affecting the negotiation of partnership paper.

27. Under what conditions may an incoming partner become liable for the debts of the old firm?

II. THE CORPORATION—STOCK SECURITIES.

28. Define corporation.

29. Define: (a) Capital; (b) Capital stock.

30. How may preferred stock be created after the organization of the company?

32. What may be accepted in payment of capital stock?

33. When is a stock subscription binding?

34. Under what conditions may directors issue bonds against the corporation?

35. Define: (a) Collateral trust bonds; (b) Equipment bonds.

36. Define: (a) Land grant bonds; (b) Terminal

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bonds; (c) General mortgage bonds; (d) Divisional bonds; (e) Income bonds; (f) Debentures.

37. Define: (a) Redeemable bonds; (b) Convertible bonds; (c) Refunding bonds.

III. THE CORPORATION—ORGANIZATION AND MANAGEMENT.

39. Who makes the corporation's by-laws?

40. How are the directors governed and what right if any have they as affecting the removal of directors, the amending of the by-laws or the articles of incorporation? What other points are mentioned in the text as being ultra vires the directors? How do the courts consider the directors in their responsibility to the stockholders or creditors?

41. What are the rights of stockholders of a corporation?

42. What officers has a corporation and what are the duties of each?

IV. THE CORPORATE RECORDS.

44. Name the books of a corporation that pertain to its stock or management. What is the purpose of the minute book and what should it contain?

PROBLEM: John Jones purchases 500 shares of Co. A stock at par, paying 10% cash, balance on call. Calls are made as follows: January 1st, 35%; February 1st, 30%; March 1st, 25%, and are paid by Jones promptly. Rule a form of stock ledger to contain this information and show the account in detail.

46. Describe a stock certificate book.

48. Describe the stock ledger referred to on this page. What difference is there in the use of form, Figure 5, and form, Figure 1?

51. What is the purpose of the stock journal?

V. ACCOUNTING SYSTEMS—SINGLE ENTRY.

54. What are the principles of single entry bookkeeping and what should the accounts show?

56. Explain the effect of debit of credit entries in single entry books.

58. What are the principal objections to single entry bookkeeping?

PROBLEM

67. John Jones' balance sheet January 1st, 1915, was as follows:

Assets:		Liabilities:	
Cash	\$ 500.00	Accounts payable.....	\$1,000.00
Accounts receivable....	800.00	Notes payable.....	500.00
Bills receivable.....	600.00	Proprietorship	2,900.00
Inventories	1,200.00		
Plant	1,300.00		
	<hr/>		<hr/>
	\$4,400.00		\$4,400.00
	<hr/>		<hr/>

One year previous it was as follows:

Cash	\$ 400.00	Accounts payable.....	\$ 800.00
Accounts receivable....	500.00	Notes payable.....	500.00
Bills receivable.....	800.00	Proprietorship	2,350.00
Inventories	600.00		
Plant	1,350.00		
	<hr/>		<hr/>
	\$3,650.00		\$3,650.00
	<hr/>		<hr/>

Prepare a statement showing his net increase during the year and also how the profit is reflected in the accounts.

VI. ACCOUNTING SYSTEMS—DOUBLE ENTRY.

69. What is the purpose of double entry bookkeeping and what principles govern its operation?

70. Summarize the rules for journalizing.

75. What differences exist between single and double entry?

76. Explain how single entry books may be changed to double entry.

VII. ACCOUNTING SYSTEMS—TRIPLE AND QUADRUPLE ENTRY.

VIII. THE FINANCIAL BOOK—THE JOURNAL.

85. What steps have been taken to reduce the detail of journalizing?

90. Explain the purpose and operation of a purchase journal.

97. Refer to pages 97-98 and explain how the forms thereon are used.

99. What is the purpose of the petty cash book and how is it operated?

102. Prepare ruling of a bills receivable book and fill in three illustrative entries.

IX. THE FINANCIAL BOOKS—THE LEDGER AND VOUCHER RECORD.

111. Give the headings for a standard ledger.

113. Refer to Figure 24. Explain how it is used.

115. Prepare a dummy Special Boston Ledger as described on this page and illustrate its use with pro forma entries.

116. Explain how a private ledger is operated.

118. Refer to Figure 26 and explain its operation.

X. THE TECHNIQUE OF POSTING.

124. What is the purpose of subsidiary ledgers and how are they operated?

129. What is a self balancing ledger and how is it kept in balance?

XI. CLASSIFICATION OF ACCOUNTS.

131. Define the following: (a) Real accounts; (b) Nominal accounts.

132. What are the objections to the terms fictitious, economic, or loss and gain when applied to nominal accounts?

XIII. CASH ACCOUNT—PETTY CASH.

143. Explain how a bank account may be operated so that it will daily agree with the books of the bank.

148. How may a petty cash fund be operated?

XIV. ACCOUNTS WITH CUSTOMERS.

155. Distinguish between cash discounts and trade discounts.

156. Is it proper to include advances to agents in the Accounts Receivable account in a balance sheet? Why?

XV. NOTES AND BILLS RECEIVABLE.

158. How should Notes Receivable be treated in the accounts?

159. Must a note be presented promptly at maturity to hold the maker?

160. How should the discounting of a note be recorded in the books of account?

161. How should dishonored notes be treated?

162. Is the distinction between bills and notes receivable important? Why?

XVI. ACCOUNTS WITH GOODS.

168. Explain how a merchandise account may be operated.

171. How should goods on hand be valued? Why? Explain how a book or perpetual inventory is operated.

172. Mention a number of objections to the plan of using the average price, in the case of sales or credits to the stock, instead of the actual price of the goods as determined by having each lot or purchase, at a different price, kept separate.

173. What constitutes factory or manufacturing burden?

176. What items may properly be included in the finished goods account?

177. What is the purpose of a stock ledger and how is it arranged?

182. What are the advantages or disadvantages of the plan of apportioning oncost to; (a) labor cost; (b) machine hours.

XVII. CONSIGNMENTS—SHIPMENTS INWARD.

187. What are the consignor's duties and liabilities?

191. Give a summary of the principles which control the operation of the accounts of a consignee.

194. What entry should be made; (a) at the time goods of a consignor are sold; (b) to represent advances to or expenses paid for the principal; (c) to record allowances and rebates granted customers for the consignor's account; (d) to record the remittance forwarded to close the consignor's account.

198. What is the purpose of an account sales and what information should it contain?

205. The plan outlined on page 205 is the method in general use by commission merchants except that no record is made to represent the value of the goods received. Explain it fully.

XVIII. CONSIGNMENTS—SHIPMENTS OUTWARD.

208. Outline a desirable plan for recording the shipment of goods to a factor on consignment. Arrange for the handling of the transactions on the shipper's books in the same manner that is adopted with reference to goods sold on regular account and so that a consignment account will contain the debit to the consignee; also so that when the goods are sold it will only be necessary to reverse the first entries and thereby throw the goods back into the regular stock account or, if desired, credit the consignment account with the net proceeds of the shipment and throw the balance of the account into Profit and Loss on Shipments.

XIX. LAND AND BUILDINGS.

221. Why should the purchase of land and buildings be recorded in separate accounts?

222. What may properly be included in the account "Plant Land"?

224. What items may properly be included in the cost of buildings?

226. Define; (a) Capital expenditures; (b) Revenue expenditures.

228. Distinguish between repairs, renewals and replacements.

229. Is it proper to increase the amount in a land account to give effect to a favorable fluctuation in value?

XX. BUILDINGS, EQUIPMENT, ETC.

232. Define "fixtures."

234. What properly may be included in the "Furniture and Fixture" account?

235. How should the following accounts be operated; (a) Delivery equipment; (b) Patterns.

XXI. MACHINERY AND TOOLS.

238. Distinguish between machine tools and shop tools.

239. What advantages are there in keeping machine tools in an account separate from the machine?

241. Why is it at times desirable to keep special machines in accounts separate from the standard machines?

242. Explain how the account representing shop tools should be operated.

XXII. GOODWILL, PATENTS, TRADE MARKS, ETC.

243. Define Goodwill.

248. Give arguments for and against writing off goodwill. (See "Accounting Principles.")

249. Under what conditions may a goodwill account be created?

250. Is it ever proper to increase the amount of a goodwill account except by the purchase of goodwill?

252. How should the following accounts be treated in the books: (a) Patents; (b) Copyrights; (c) Franchises?

259. Is an annual payment made on account of a franchise a charge to capital or should it be treated as a revenue expenditure?

XXIII. INVESTMENTS.

262. How should securities purchased for speculative purposes appear on the books of account? What account or accounts are necessary where the purchase is made on a margin?

265. What information should be recorded in a mortgage register?

267. Distinguish between a pawn or pledge and a mortgage.

268. What record is required of securities pledged to cover a loan?

271. How should interest accrued on a bond at the time of its purchase be treated in the accounts?

272. Give an outline of the theory of amortization.

274. Given a 20 year 6% gold bond netting the investor $5\frac{1}{8}\%$ and costing him \$1108.70, show the bond accounts in detail for the first two periods.

283. What is wrong with the plan of adjusting the bond account to market value each year and transferring the amount written off to bond income account? How should the investment in stock of other companies appear on the books of the purchaser?

284. Mention a case where the dividend received on capital stock may not be income.

285. Define incumbrances.

289. What may properly be included in the Real Estate account?

290. Is it proper to allow the profit and loss account to be affected by changes in the market value of real estate?

XXIV. SPECIFIC FUNDS AND RESERVES.

293. Explain how reserve funds may be created.

295. Distinguish between reserve accounts and reserve funds. (See "Accounting Principles—Reserves.")

296. Describe the method of determining the annual deposit of a sinking fund.

XXV. ACCRUED INCOME NOT DUE.

299. Why is it necessary to consider income accrued but not due as an asset before closing the books at the end of a fiscal period?

301. Distinguish between the cash basis and the accrual basis of determining profits. In what way do dividends differ from rentals and interest?

302. What entry is made to place the value of accrued income on the books?

305. What entry is made to give effect to the accruals on a bond account that is being closed between interest dates?

XXVI. DEFERRED DEBIT ITEMS.

309. When closing the books at the end of a fiscal year, which should be used, the cash surrender value of a fire insurance policy or the amount remaining after apportioning the cost of the policy over the periods before and after the closing date according to the number of days in each?

310. What treatment of the premium is proper where the concern contemplates liquidation?

311. Is it proper to treat the value of stable supplies or advertising material as an asset at inventory time?

313. Explain fully how a Stationery and Printing account should be treated at the end of a fiscal period.

315. What are deferred debit items and how should they be treated?

316. What may properly be included in the account "Organization Expense" and how may the account be disposed of?

XXVII. CAPITAL STOCK.

319. What are corporations aggregate?

320. Recite on the liability of a corporation to its stockholders.

323. Why is it necessary that the authorized amount of capital stock always appear on the books? Provided the entire capital stock is not issued, how should the unissued portion be treated?

326. May a subscriber to capital stock, part of the purchase price only being paid, surrender his shares and cancel his obligation?

327. How should uncalled subscription be treated in the balance sheet?

329. How should stock placed with fiscal agents for sale be treated?

330. Explain how premiums on capital stock should be treated in the accounts and balance sheet.

331. Is premium, on capital stock, income, or is it a profit? What is the ruling of the Interstate Commerce Commission as to the treatment of discounts or premiums on capital stock?

332. Define Treasury Stock.

333. Treasury Stock is sold below par, what should be done with the discount?

334. Stock is donated to the company for the purpose of resale to secure working capital, what entry? Explain fully the operation of the "Donation for Working Capital" account.

XXVIII. BONDED DEBTS.

337. Define funded debt.

338. Explain how unissued bonds should be treated.

340. Give arguments for or against deducting sinking fund assets from the bonds payable account, where the sinking fund contains a number of the company's own bonds.

342. Explain how premium received on an issue of bonds should be treated in the books of account.

XXIX. SECURED AND UNSECURED DEBTS.

347. Give entries covering a mortgage where the consideration is; (a) the receipt of money; (b) the mortgagor's right to enforce a contract; (c) an extension of time on a preexisting debt; (d) the surrender of securities.

349. May accrued and unpaid interest on a mortgage be included with the principal?

350. What is a warehouse receipt and what is its purpose?

351. What entries should be made to record the issuance and payment of a post dated check? Explain how bills should be treated in the accounts of the drawor and drawee.

352. How should notes payable be recorded?

XXX. ACCOUNTS PAYABLE.

354. What may be represented by the term "Accounts Payable"?

355. Is it proper to show accrued but unpaid wages in the account "Audited Vouchers Unpaid"?

356. May a dividend be recinded after it has been declared?

357. May a dividend out of capital be recalled from the stockholders?

358. May an appreciation in the value of an asset be treated as available for dividends?

359. Give a reason why it may be desirable to distinguish between surplus derived from income and surplus derived from increases in the value of property.

361. What is a stock dividend and what is its purpose or effect?

362. What entry is made to record the declaration of a dividend?

XXXI. ACCRUED LIABILITIES—DEFERRED CREDIT ITEMS.

363. What are accrued liabilities and why are they recorded in the accounts at the end of a fiscal period?

366. What are deferred credit items?

367. What are "Operating Reserves" and why are they treated as deferred credit items?

XXXII. RESERVES AND SURPLUS—PROPRIETORSHIP.

369. Distinguish between reserves and surplus.

371. Define depreciation.

372. Under what conditions may the amount of a reserve for depreciation be charged against net profits?

373. Are operating reserves an appropriation of surplus?

376. Explain how reserves for debt redemption should be treated in the accounts.

377. What is the purpose of a reserve for exhaustion?

378. Give a number of plans for providing for the depreciation of physical assets.

379. What is the objection to the plan of including interest in the accounts when providing for depreciation?

(In connection with the study of this chapter see "Accounting Principles," "Reserves" and "Reserve Investments.")

What is the objection to the fixed percentage of residual values method of providing for depreciation?

380. Why is it seldom desirable to revalue assets for the purpose of determining the depreciation thereof? Explain how and when the provision for the exhaustion of minerals should be placed on the books.

381. What may properly be included in the proprietors' or partners' drawing accounts?

XXXIII. STATEMENTS BASED ON SINGLE ENTRY.

387. Explain how a statement may be prepared to show the disposition of profits earned during a fiscal period.

389. Are accountants justified in presuming that disbursements represent only cash payments?

XXXIV. TRIAL BALANCE—BALANCE SHEET.

396. What is a trial balance and what is its purpose? What is a working balance sheet?

397. How is the accuracy of a working balance sheet determined?

400. What is the purpose of the first journal entry on page 400? Is it necessary to open an account "Provision for Depreciation" or may the amount of the reserve be posted direct to the profit and loss account?

401. Which is preferable, to make a journal entry giving effect to increases or decreases of inventories or to close the old inventories into profit and loss and open new inventory accounts from profit and loss?

XXXV. BALANCE SHEET.

406. What is a balance sheet and what is its purpose?

407. Turn to page 407 and elucidate the principles involved in this problem.

409. Mention a few of the common variations in the arrangement of balance sheet items.

410. What is the peculiarity of a double account balance sheet and why is this form used?

413. Why is it desirable to place certain items opposite others in the balance sheet?

416. Is it proper to consider reserves for depreciation and reserves for possible losses on accounts receivable as appropriations from surplus?

XXXVI. SPECIAL FORMS OF BALANCE SHEET.

418. Describe the arrangement of the balance sheet items of a national bank.

421. What are non-ledger assets?

424. Prepare a skeleton balance sheet for steam roads using the divisional headings found on pages 424-428.

XXXVII. STATEMENT OF INCOME.

430. What should be included in a statement of income?

432. What is the mechanism of the statement of income and profit and loss?

434. Is automobile expense a deduction from sales or is it a selling or delivering expense?

439. Discuss the theory that interest on capital should be considered as a part of the cost of goods.

441. Give an argument in favor of treating taxes and fire protection as a deduction from income. What is the account form of income account?

444. Why is it desirable to distinguish between income and surplus?

445. What is the purpose of a statement of cash receipts and disbursements?

XXXVIII. THE CONSOLIDATED BALANCE SHEET.

447. Distinguish between a consolidation of balance sheets and a consolidated balance sheet.

452. This solution is based on the theory that reserves for depreciation and doubtful accounts receivable are part of the surplus and proprietorship of the firms "A" and "B." These reserves are but offsets to assets, hence the net worth of the concerns should be less. Solve the problem again giving effect to this change.

457. Give an outline of the points to be considered in the solution of the "A," "B," and "C" Co. problem.

XXXIX. STATEMENT OF AFFAIRS.

461. Under what conditions may a receiver be appointed?

462. Explain how the assets and liabilities should be arranged in a statement of affairs.

470. Why is it desirable to deduct the preferred claims from the total assets?

471. What is the purpose of the deficiency account? How should the items be arranged in a deficiency account?

472. How should the reserves be treated in the statement of affairs and deficiency account?

XL. REALIZATION AND LIQUIDATION.

474. What accounts would you expect to find in the books after a concern has realized all of its assets and liquidated all of its liabilities? What entries are made to close the books of; (a) A partnership; (b) A corporation?

475. What should a realization and liquidation statement show?

480. What are the principles involved in the preparation of a realization and liquidation statement?

487. What should the proprietor's account on the books of the trustee contain?

488. Why should the factory labor expended be charged to the trustee?

489. Discuss the advantages or disadvantages of the form on pages 488-489 in comparison with the form on pages 483-484.

XLI. ACCOUNTS OF FIDUCIARIES.

491. What are the academic theories covering accounting for executors? What are the statutory provisions for such accounts?

492. What must the inventory of the estate contain?

493. How is after acquired property treated by the executor in his reports to the court? Under what condition does an executor secure control of the real estate?

494. In what order must the debts be paid?

495. Under what condition may a real estate mortgage be paid out of the personal estate? What is the amount of the executor's compensation in this state?

500. What items are contained in each of the schedules required by the New York statutes?

*** MODERN ACCOUNTING**

BY HENRY RAND HATFIELD, PH.D.

I. THE PRINCIPLES OF DOUBLE ENTRY BOOKKEEPING.

1. Discuss the theory of double entry bookkeeping. Distinguish between single entry bookkeeping; the bookkeeping of governments, municipalities, etc., and double entry bookkeeping.

C. P. A. QUESTION: Expound the theory of double entry bookkeeping and state briefly how you would proceed to complete the doubly entry in the event you were called in to examine the accounts of a concern which had been kept on a single entry basis in all respects except as regards the cash feature of the personal accounts.

C. P. A. QUESTION: (a) What may the placing of an item on the debit side of a ledger account represent?

(b) What may the placing of an item on the credit side of a ledger represent?

C. P. A. QUESTION: On what doctrine is the equilibrium in bookkeeping founded? Explain.

C. P. A. QUESTION: What great method of expressing accounting results has been evolved out of the doctrine of equilibrium?

II. THE PRINCIPLES OF DOUBLE ENTRY BOOKKEEPING.

—(Continued.)

17. Could a ledger alone be used to record the transactions of a business of any size? What is the most important book or books from an accountant's point of view? From a legal standpoint?

30. Does double entry bookkeeping truthfully set forth at a moment's notice, as it is supposed to do, all of the facts relative to a business?

31. What items are usually incorrectly stated in double entry books?

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C. P. A. QUESTION: In a recent work on double entry book-keeping, it is contended that each business transaction involves two entries with the proprietor; do you agree with the author? If so, why? If not, why not?

C. P. A. QUESTION: State at length how you would treat accruals to make them conform to the theory that brought them about and to the technique of the accounts reflecting them.

III. THE BALANCE SHEET.

35. What advantage does a trial balance of footings have over one of balances?

36. Why does a trial balance not show the status of a business?

37. How does a trial balance differ from a balance sheet?

47. In what way should the two sides of a balance sheet agree? Should funded debt be included in the capital section or in the working capital section of a double account system balance sheet? Discuss the location of the item "cash" in the balance sheets prepared for different classes of business.

51. Where should offset accounts appear in the balance sheet?

52. Give examples of accounts that are offsets to assets; to liabilities; to proprietorship accounts. What are the purposes of a balance sheet?

55. Is a balance sheet a correct statement of facts? Explain fully with reasons. What are the chief causes of incomprehensibility and consequent misunderstandings in balance sheets? How may the lack of knowledge or the intentional concealing of facts work to change the result displayed by a balance sheet?

56. How does the vagueness of terminology affect the value of a balance sheet as a statement of facts? Discuss the concealment of facts in a balance sheet in connection with the purpose of such concealment. Refer to page 59 and discuss the balance sheet shown thereon.

61. Elucidate the item "Preferred Stock" on page 61. What is the name for the form of balance sheet shown on page 60-61? Are the items "Special Betterment Fund," "Rolling Stock Replacement Fund," "Rail Renewal Fund," etc., reserve accounts or reserve funds? (See Accounting Principles.)

62. Why are liability items 3 and 4, and asset items 6 and 7 shown? Is credit item 5 well expressed, taking into consideration the amount thereof and looking at it from the standpoint of a depositor? Discuss liability items 5 and 7, as to their location or completeness. Refer to Form 29. See "Sinking and Reserve Fund Assets." Why is the \$31,559,000 not shown as an asset? Discuss the advisability of placing sinking fund assets at market value. How is the fluctuation in their value cared for? Why is liability item 2 shown? Why are subsidiary companies' bonds, not held by the U. S. Steel Co. shown? Why is item 4 included? Is it proper to combine the capital or current liabilities and to show the funds and surplus items separate while sinking fund assets are included in the total of the fixed and current assets? How is the profit on inter-company transactions cared for? (See Accounting Principles—Inventory of Holding Companies.) In your opinion is it proper to combine all of the surplus accounts of the entire group of companies even though a considerable amount of stock is not held by the holding company?

63. Discuss form 30 as to arrangement.

64. Re-arrange form 31 presuming that you are desirous of showing the depositors the ability of the bank to liquidate their claims on short notice.

65. Discuss form 32, giving consideration to items 3 and 4; the arrangement of passive terms; the location of the accounts "Profit and Loss," "Depreciation," etc.

66. Refer to form 33. Criticize the location of item VI.

C. P. A. QUESTION: From the viewpoint of the balance sheet, what is the logical place for: (a) reserves for depreciation of physical assets, created by charges to operations, (b) operating reserves, (c) reserves for redemption of liabilities, (d) reserves for contingencies? Give reasons for your opinion.

PROBLEM: (a) Rearrange the following accounts as the Condensed Balance Sheet of the "E" and "F" Corporation.

"E" and "F" Corporation First Mortgage Bonds issued; Funds Advanced for Traveling Expenses; Addition to Mill No. 7, Plant No. 1; Advances to Employees on Current Payroll; Real Estate, Buildings and Equipment, Plant No. 2; "E" and "F" Corporation Bonds Unsold; Furniture and Fixtures, Plant No. 1; Accounts Payable, secured by a lien on machinery; Accounts Payable, sundry unsecured creditors; Box and Veneer Plant, Plant No. 1; Store and Office Fixtures, Plant No. 2; Sawmill and Dry Kilns, Plant No. 3; Electric Plant, Plant No. 1; Furniture and Fixtures, N. Y. office; Notes Payable, secured; Customers' Accounts, Receivable; Depreciation Reserve Account; Logs, Boxes and Veneer, Plant No. 1; Interest Paid in Advance; Wharves and Warehouses, Plant No. 3; Freight Unpaid; Capital Stock, "E" and "F" Corporation; Notes Receivable; Real Estate, Plant No. 1; Undivided Profits; Notes Payable; Boxes, Lumber, etc., Plant No. 2; Lumberman's Marine Insurance Co., Stock; Sinking Fund, invested in A. C. L. R. R. Co., bonds; Timber Lands and Stumpage; Cash, Plant No. 1; Teams and Carts; Lumber and Logs, Plant No. 3; Cash, Plant No. 3; Cash, Plant No. 2; Insurance Premiums Unearned; Dividends Unpaid; Surplus; Real Estate, Plant No. 3; Cash, N. Y. Office; N. & W. R. R. Co., Bonds; Current profits; Payrolls, due and unpaid.

(b) State your reason for the arrangement you have made in answer to the above question.

IV. ASSETS AND THE PRINCIPLES OF THEIR VALUATION.

70. Discuss the various theories of distinguishing between capital and revenue expenditures? (3 given.)

74. Mr. Hatfield mentions three items requiring consideration in an inventory. What are they?

76. Under what condition would a railroad be justified in capitalizing interest? (See Accounting Principles.)

77. How should expenses incurred in experimental work be carried on the books, as an asset or as an expense? Present arguments in favor of each plan.

78. How much of the initial expense of an organization may be properly charged to organization expense? (See Accounting Principles.)

79. What is the proper manner of placing assets on the books where payment has been made in stock, the face value of which is greatly in excess of the actual value of the asset? (See Accounting Principles—Capital Assets.)

81. What differences exist in the method of valuing fixed assets and current assets?

84. In the construction of a balance sheet, is it desirable to understate the financial condition of the concern or should absolute accuracy be the rule?

C. P. A. QUESTION: Would you consider it proper under any circumstances for a company to treat all or any part of the advertising expenses incurred during the year as an asset for the purpose of its annual accounts to be submitted to the stockholders? In your answer, state fully the grounds for your views and explain how you would recommend that such expenses should be dealt with.

C. P. A. QUESTION: In auditing the accounts of an Engineering Corporation, you find a number of engines have been shipped to dealers on consignment, against which the dealers have made deposits of 75 per cent of the invoice price. The engines were invoiced out to the dealers at the regular contract prices, being carried in Accounts Receivable, the deposits referred to being credited to the same accounts. In drawing the balance sheet, how should these items be stated, and what should be the basis of valuation?

V. THE VALUATION OF PARTICULAR ASSETS.

87. How should land be valued? What should the cost of the land include? Should interest paid on a purchase money mortgage be capitalized? How should land, purchased for re-sale, be valued? In this case would you include interest paid on a purchase money mortgage?

88. How would you proceed to ascertain the value of that portion of a tract of land remaining unsold at the end of a fiscal year, presuming there are 50 lots, the individual values of which vary?

89. How should buildings be valued? How should machinery and tools be valued? Should they each be valued in the same manner? How should machinery that has been made in our own shops be valued? May the inventory value include cost of installation? (See Accounting Principles—Articles Prepared for Use of Firm.)

90. How should a national bank value bonds that are held to secure note circulation?

91. How should a railroad value the stock of a subsidiary company which it controls?

92. How should stocks and bonds be valued where there is a published quotation covering their transfer value?

93. Under what condition would you "write down" the value of corporate stock?

94. What effect does the approaching maturity of an investment bond have on its inventory value? (See Accounting Principles—Investments in Bonds.)

94. A 6 per cent bond, maturing in ten years is purchased at 107; should the entire interest be credited to revenue?

98. How should current assets be valued? What should be done with notes that are supposed to be valueless? (See Accounting Principles—Overdue Notes.) Is the plan of writing them down to \$1 or some such nominal sum practicable?

100. Explain the various plans of estimating the amount of a reserve for bad debts.

102. How should merchandise be valued? Is it proper to include in-freight? What is wrong with the theory of using selling price less selling expense and profit?

103. Where like goods were purchased at different prices, which rate should apply in the inventory? (See Accounting Principles—Valuing Stock.)

104. How should goods in the process of manufacture be valued? (See Accounting Principles—Partly Manufactured Goods.)

105. How should goods be valued where they are manufactured on a specific contract and are nearly completed at inventory time?

C. P. A. QUESTION: At date of a partnership settlement two contracts are in hand and uncompleted; one for \$1,200, estimated to cost \$900, is three-quarters finished and is already charged up to customer at \$1,200 as of date of contract; the other for \$2,000, estimated to cost \$1,500, is half finished, and no entry has been made therefor. Suggest entries necessary to adjust these accounts so that anticipation of profits shall not occur.

C. P. A. QUESTION: In auditing the accounts of a textile manufacturing company, how would you verify the existence of, and satisfy yourself as to the values of the following items appearing in the balance sheet:

Trade debtors,
Inventories of raw materials and manufactured goods,
Plant and machinery,
Real estate?

VI. IMMATERIAL ASSETS.

107. What is goodwill and how should it be valued? Is it proper to charge the difference in inventory value of a business, excluding goodwill, and the purchase price in stock to goodwill account?

110. What items require consideration when estimating the value of goodwill? In determining the time during which the accounts of the seller may be used in estimating the value of goodwill, what would influence you to use certain periods and not others of its existence?

112. How would you ascertain the annual amount of profit that could be used as a basis in computing goodwill? (See Accounting Principles.) What effect does the personality of the proprietors have on the transferability of the goodwill of a concern? How is this effect often overcome? What factors require consideration in estimating the duration of profits?

113. Should interest on capital be deducted when estimating the value of the goodwill of a partnership? Should a charge be made to cover management salaries in the case of a sole trader or a partnership?

114. To what extent should the amount invested be allowed to affect the charge for goodwill?

116. What argument would you advance against writing down goodwill?

117. Mr. Hatfield says: "Strict logic requires, at least where the price paid for goodwill is definitely based on a number of years' purchase of excess earnings, that the valuation should be written off in the same number of years." What is wrong with this statement? (See Accounting Principles—Writing Off Goodwill.) What is wrong with the practice of writing off the value of goodwill when the expected returns are not realized? Is it proper to write off goodwill against capital instead of against profits? What is the objection to including goodwill with patents and similar assets?

118. What are deferred charges?

119. What argument would you advance for including deferred charges among the assets?

120. Is it proper to retain items representing unusual losses such as "earthquakes, fire and strikes" on the books in hope that they may be cancelled out of future earnings?

VII. DEPRECIATION.

126. In the case of a time clock that has been used a couple of years without any signs of wear, should its value be depreciated even though it is still as serviceable as ever? Why? How should depreciation be shown on the balance sheet? What names are suggested for the account? Describe various methods of caring for depreciation. (See Accounting Principles.)

141. Which is the more desirable, a reserve for depre-

iation or a reserve for contingencies, in providing for obsolescence? In the case of a copyright running 28 years, how much should be written off each year?

PROBLEM: A manufacturer is desirous of selling his business, and furnishes a statement showing the condition of affairs for the past five years as follows:

Amount of sales averaging per year.....	\$800,000
Wages paid.....	200,000
Expenses paid.....	80,000
Raw material used.....	350,000
Supplies on hand at present time.....	40,000
Machinery in use at commencement of the 5 years	150,000

50% of the above amount has been in use for 10 years previous, and all additions made at cost prices, and nothing marked off for depreciation.

Carried at present..... \$225,000

(All repairs have been charged to expense)

Real Estate valued at..... 200,000

What report would you make as to a fair valuation of this business? Explain fully your reasons for same.

PROBLEM: A manufacturing company that had been in business for a number of years, began operations the first of a certain year in an entirely new plant, built to last 20 years. The building of the new plant was made necessary by wear and tear and obsolescence affecting the old plant. The new equipment cost \$200,000, for which the company issued 10 obligations of \$20,000 each at 6%, maturing the first of each year following the date of their occupancy of the new plant. The old plant was disposed of at a scrap value of \$10,000 when it was vacated, at which time the balance sheet of the company showed:

Assets:		
Plant	\$225,000	
Less scrap value.....	10,000	\$215,000
Other assets		80,000
		<u>\$295,000</u>
Liabilities:		
Capital stock.....	\$200,000	
Surplus	50,000	
Profit and loss.....	25,000	
Gross sales for year.....	\$100,000	
Less operating expenses..	75,000	
Floating debt	20,000	<u>\$295,000</u>

The new plant was at once added to the asset values at

\$200,000, and the company's liability on its obligations shown for the same amount.

Owing to competition and limited use of the products, the sales have been uniform for a number of years, and could not be expected to increase, but the new and improved machinery, with better methods of manufacture, saves 10% in operating expenses (including therein 6% interest on the borrowed money) by their method of accounting.

The books have shown a net earning of \$25,000.00 per year as follows:

Gross sales		\$100,000.00
Operating Expenses:		
Manufacturing expenses	}	75,000.00
Repair expenses		
Selling expenses		
General expenses		
Taxes		
Insurance		
Ground lease rentals		
Net		\$ 25,000.00

At the close of the first year's operations of the new plant, the balance sheet showed as follows:

Assets:	
Plant	\$415,000.00
Other assets	112,500.00
	<u>\$527,500.00</u>
Liabilities:	
Capital stock	\$200,000.00
Surplus	75,000.00
Profit and loss	32,500.00
Sales for year	\$100,000
Less operating expenses	67,500
Notes payable	200,000.00
Floating debt	20,000.00
	<u>\$527,500.00</u>

The balance sheet is submitted and a dividend declared.

Discuss all of the foregoing, and illustrate your conclusions; also draw up a statement showing what, in your opinion, is the true condition of the company.

C. P. A. QUESTION: In examining the accounts of a corporation, you find that no depreciation has been provided for the year in respect to buildings, machinery and equipment on the theory advanced by the directors, that such depreciation is fully offset by an increase in the value of the real estate which has not been taken up on the books.

Discuss the merits of this contention.

VIII. CAPITAL STOCK.

144. What does the capital account represent?
145. Wherein does the operation of a capital account of a sole trader or a partnership differ from that of a corporation?
148. How should unsubscribed stock appear in the balance sheet?
151. How should re-acquired stock be shown in the books and balance sheet?
152. Would an account "Investments and Treasury Stock" be proper? Why?
153. "A" purchases 10 shares of treasury stock at 85 and subscribes for 10 more, paying 85. What is his liability in each case?
154. Can you give a reason why uncalled subscriptions should appear in the balance sheet?
155. In the case of subscriptions to capital stock at a premium, what account is credited with the premium? Why would it not be correct to credit it to profit and loss?
157. Are there any conditions wherein a company could sell its unissued stock below par without creating a liability, on the part of the purchaser, for the discount?
159. Certain stock is retired by an issue of bonds. What entry? Profits are retained in the business with which to retire certain stock. What entry?
160. Capital stock is reduced to cover a deficit and to create a surplus account. What entries?

C. P. A. QUESTION: A mining company is organized with a capital stock of \$100,000 in shares of \$1 each. The entire capital stock is issued in payment for the properties acquired by the company. The stockholders then return to the company, as a gift, 25,000 shares, which are to be sold by the company for the purpose of providing working capital. The company afterwards sells 10,000 of these shares at 50 cents each, and the remainder at 75 cents each.

Prepare Journal entries covering these transactions.

IX. CAPITAL STOCK ISSUED FOR PROPERTY.

162. A company with a capital stock of \$60,000 wishes to acquire certain property worth \$30,000, of an individual who is not willing to accept in payment a like amount of a new issue of the stock of the company. The laws do not allow an issue of stock at less than par except in rare cases and they cannot give him the \$40,000 worth of stock that he requests. Presuming that the capital employed will net 6 per cent to the investors, what other plans will answer as well as the issuance of stock below par?

168. How should the difference between the par value of the stock and the actual value of the acquired assets be shown on the books? (See Accounting Principles—Discount on Stock.)

175. Is a stock dividend legal? Would it be legal if there were no undivided profits account to charge it to?

178. Is the donation of stock, prima facie evidence of the over valuation of assets?

179. What is working capital?

180. Mention two forms of corporation consolidation and define each. Should the par value of purchased stock be placed on the books? (See Accounting Principles—Treasury Stock.)

X. LIABILITIES.

185. Refer to form 71. What is the objection to deducting the debts from the assets?

187. Discuss the treatment of premium received on an issue of bonds. (See Accounting Principles—Premium on Bonds.)

189. Is it proper to charge discount on bonds to construction account?

190. What effect would an increase in the life of the

bonds have on the cost of a railroad in this case? Is it proper to charge the cost of selling an issue of bonds to construction account? How should unissued bonds appear in the balance sheet? (See Accounting Principles—Unissued Bonds.)

191. Distinguish between unissued bonds and unissued stock as to value. Is it important to distinguish between reacquired and unissued bonds? Why? Refer to form 72. How is the result shown accomplished?

192. In case certain bonds that have been held for a number of years by a trustee for bond holders are cancelled, is there any necessity for making an entry in the books showing their cancellation. Give three examples of contingent liabilities. (See Accounting Principles.)

193. In the case of a cumulative preferred dividend in arrears, the preferred share holders cannot enforce payment neither can the company pay the amount except from earned surplus. Why should the item appear in a balance sheet? How should contingent liabilities be shown on the balance sheet?

194. Discuss the treatment in the books of pensions payable in the case of a definite agreement and also in the case of a "matter of policy."

C. P. A. QUESTION: A public service corporation of this state disposes of \$1,000,000, par value, first mortgage 5 per cent bonds at 95 to mature in 20 years. Give the treatment of this discount as prescribed by the Public Service Commission.

XI. PROFITS.

195. What are the various names of the profit and loss account? What is it intended to show? Why is it called a temporary account? In what way is it a collective account?

197. Should all profits appear in the profit and loss account? What is a wasting asset?

205. In the case of a wasting asset is it necessary to provide for depreciation? (See Accounting Principles—Wasting Assets.)

207. Are there any conditions wherein dividends may be paid even though the net worth has diminished during the period under review?

208. If losses have occurred in one year, may dividends be paid the next year even though a sufficient sum has not been earned to cover previous losses? If you consider it illegal, can you outline a plan by which it would be possible to pay dividends the second year?

XII. PROFITS, Continued.

214. What items require consideration when declaring a dividend? Is it legal to declare a dividend if fixed assets have been lost and if the loss thereon would cause a deficit if given effect? Is it legal to declare dividends where circulating capital has decreased and an impairment of capital results?

215. Give an argument in favor of returning the capital to the stockholders of a mine as soon as practicable?

217. Mention a case wherein it would be proper to retain the capital of a mining company with which to purchase future workings? Give an argument in favor of paying a dividend even though the fixed assets of an undertaking have been destroyed.

222. May a premium on the sale of capital stock be applied to the payment of dividends? Is it proper to pay dividends from premium received on an issue of bonds? Is a profit arising from the sale of forfeited stock available for dividends?

223. Is an unrealized increase in the value of a fixed asset available for dividends?

224. May profit be taken on account of an advance in the value of unsold merchandise?

225. Need a profit be actually paid into the treasury in money before it is available for dividends?

229. Is it proper to borrow money with which to pay dividends?

C. P. A. QUESTION: It has been stated "that the right to declare a dividend depends upon the state of the company's finances at the time when the dividend is declared." Give your opinion briefly as to conditions under which a company may borrow money for the purpose of paying a dividend.

XIII. SURPLUS AND RESERVES.

233. Distinguish between corporations and individual traders in the disposition of the accrued profits of a period. Discuss the last five lines of paragraph 1.

234. Distinguish between capital and surplus. Mention a number of ways by which surplus may be created other than by accumulating profits.

236. Refer to form 83, page 236. Which of the items are reserve accounts and which are reserve funds? (See *Accounting Principles—Reserves.*)

239. Mention the reasons for the creation of a reserve fund.

242. If a reserve is set aside for a specific purpose, may it be used for some other purpose? Where a reserve is to be created to protect creditors, what plan is sometimes demanded by the creditors to protect them against the use of the reserve for some other purpose?

244. Is it always necessary to have specific assets set aside to cover the reserve?

250. Distinguish between the term "Reserve" as used by a bank or an insurance company and "Reserve" as used by other institutions.

257. Is the entry "Reserve for Extensions Dr. to Cash, Cr.," proper in the case of a purchase of the extensions? Why?

258. What becomes of the "Reserve for Extensions" account after the expenditure for extensions has been made?

259. In what classes of undertakings is it desirable to open an account "Reserve for Fire Losses"? Outline the workings of a reserve for fire losses which with all accumulations in the way of interest, dividends, etc., is to be invested in securities. (See Accounting Principles—Reserve for Fire Losses.)

C. P. A. QUESTION: How would you treat the following items in the balance sheet of a company you were auditing:

- (1) Dividends in arrears on Cumulative Preferred Shares,
- (2) Discounts on an Issue of 30-year Mortgage Bonds,
- (3) Notes Receivable Discounted,
- (4) Discount on Short Term Gold Notes Issued,
- (5) Guarantee of Payment of Interest on Bonds issued by a Subsidiary Company,
- (6) Reserve for Depreciation of Capital Assets,
 - (a) Invested in Securities,
 - (b) Not specifically invested,
- (7) Losses on Sale of Capital Assets?

XIV. SINKING FUNDS.

261. What is a sinking fund? Upon which side of the balance sheet should it appear?

263. If the amount of the sinking fund is turned over to the trustees and invested in bonds and other securities, what entries are made in the books of the company?

264. What entries appear where bonds have been redeemed with the cash turned over to the trustees?

265. What are the advantages or disadvantages, from the bondholders point of view, of carrying the accounts as shown in: (a) form 99, example 1; (b) form 100, example 2; (c) form 101, example 3; (d) form 102, example 4? If bonds are purchased and held by the trustees do they draw interest?

266. What are the advantages or disadvantages of retiring a debt by the sinking fund method?

267. Is the sinking fund reserve ever a proper charge against earnings?

268. What is the effect of charging the sinking fund reserve to income instead of to surplus

269. To what account should the interest received on sinking fund investments be credited?

270. What would be the objection to declaring a stock dividend equal to the amount of the sinking fund reserve?

272. In the case of a perpetual undertaking, is it necessary that the sinking fund be arranged to retire the entire bond issue? Is an appropriation out of profits for the purposes of a sinking fund, a satisfactory provision for depreciation?

PROBLEM: A coal mining corporation proposes to issue bonds of the denomination of \$1,000 each to the amount of \$500,000 on January 1, 1911, bearing interest at 6 per cent per annum, payable semi-annually. Under the terms of the mortgage a fund equal to 10 cents per ton of coal shipped is to be set aside semi-annually for the first three years, and at the rate of 12 cents per ton thereafter, the fund to be used as follows:

First—To pay the interest on the bonds;

Second—After paying interest the balance is to be used to redeem and cancel bonds at par as of the dates on which the interest is paid; any balances remaining in the fund thereafter to be added to the fund of the next period.

It is estimated that the tonnage will be 400,000 each six months for the first three years, and 500,000 tons each six months thereafter.

Prepare a tabular statement showing concisely the operation and the result of the carrying out of the proposed plan, based on the foregoing estimates.

XV. TRADING, MANUFACTURING AND INCOME ACCOUNTS.

274. Into what sections should an income account be subdivided?

275. Are the portions headed "Trading" or "Manufacturing" a section of the profit and loss account or are they separate accounts? (See Accounting Principles.)

276. In which section should the item "Cash Discount

Allowed on Sales" be shown? What class of items may properly be deducted from "Sales."

277. In which section should "Cash Discounts Received" appear? (See Accounting Principles.) What account does the "Appropriation" section represent?

278. Turn to form 108 and discuss the advantages that it possesses over form 107.

284. Is it proper to allow a profit on manufacturing?

285. Where this is done what precaution should be taken against paying out this anticipated profit as dividends?

289. Are taxes a charge against income or should they be charged against something else? In estimating the overhead expense of a factory would you include taxes?

290. In which section should depreciation appear? What is the ruling of the Interstate Commerce Commission as to the placing of depreciation?

291. In the case of a trading concern, how would you treat depreciation? Distinguish between interest charges and depreciation as to their location in the Profit and Loss account?

PROBLEM: A fire occurred in the factory of a firm, and the following sums were recovered from the insurance companies:

For loss on buildings.....	\$ 4,000
For loss on machinery.....	6,500
For loss on merchandise.....	10,000
	<hr/>
	\$20,500

The firm spent, in restoring them to their original condition, \$4,750 on the buildings and \$6,000 on the machinery. They also spent in cleaning and sundries incidental to the fire, \$100.

The firm's valuation of the merchandise lost and damaged was \$11,600. After the fire, \$6,000 was realized from the sale of damaged stock.

Prepare journal entries to show how the above matters should be dealt with on the firm's books.

C. P. A. QUESTION: What is the purpose of the statement of income and profit and loss? Show the meaning and intent of each group of facts and explain why facts resulting from complex accounts must be expressed in analytical form.

XVI. COST ACCOUNTS.

293. Mention three or four advantages to be gained by keeping cost accounts. (See Hawkins' Cost.)

297. Define: (a) prime cost; (b) oncost; (c) indirect expense. Mention a number of ways of distributing on-cost.

298. What are the objections to apportioning the on-cost to labor? To material used?

304. What should be done with the oncost accruing on an idle machine? Which should be used as a basis for on-cost, the estimated current expenses or the expenses of the prior year?

305. What is the proper manner of apportioning office oncost? In your opinion, what disposition should be made of the pattern account? In discussing this question, take into consideration special patterns, patterns for general use, unsuccessful patterns and obsolescence.

306. What are the principal objections to the adoption of a cost system?

309. What are the requisites of an accurate cost system?

C. P. A. QUESTION: Overhead factory expenses are sometimes computed on the basis of labor, sometimes on the basis of material and sometimes on both; at other times the expense is computed on the machine hour basis. Why are these arbitrary methods adopted?

XVII. PARTNERSHIP ACCOUNTS.

316. What do the majority of partnership problems lay the most stress upon?

318. Does an increase in the value of fixed assets affect the divisible profit of a partnership?

Draft entries for the following: (a) "A's" present worth is \$5,000; he agrees to accept "B" as a partner; "B" is to invest \$6,000, and to receive half of the profits. (b) Conditions the same as the above but "A" agrees to allow "B" a half interest. (c) Conditions same as above except that "B" is to receive a three-fifths' interest.

320. "C" wishes to purchase a third interest in the firm of "A and B" in which "A" has an investment of \$10,000 and "B" an investment of \$20,000. What will it cost him if he buys of "B"? What will it cost him if he invests in the company?

323. What is the advantage of crediting the partners' accounts with interest on their investment where each has invested proportionate to his share of profits? What is the advantage where the investment is not proportionate to the share of profits?

324. How would you adjust the accounts where a certain amount of investment has been agreed upon and where interest is charged or credited on the excess or the deficiency of the actual investment?

327. "A" and "B" are conducting a business as a partnership. "A's" present capital account shows a credit of \$2,000. "B's" account shows a credit of \$500. A loss of \$1,500 is suffered. How much of the available cash balance of \$1,000 is "A" entitled to in case of dissolution?

328. In a partnership, "A's" capital account shows a credit of \$2,000; "B's", \$500; "C's", \$4,500. There is, however, a debit to profit and loss account of \$4,800. In case of a dissolution, how much of the net avails should each partner receive, presuming that "B" is insolvent and that the claim against him is worthless?

331. Under the terms of a partnership agreement "A", "B", and "C" are to share profits equally and were to invest equal sums. Upon dissolving and after paying all losses "A's" credit balance is \$7,500; "B's", \$7,000 and "C's", \$6,500. How should the actual cash on hand be divided presuming that the amount is \$1,500?

PROBLEM: "A," "B" and "C" were equal partners. In the event of the death of either of them, during the existence of the partnership, the two survivors were, in terms of the deed of partnership, to have the prior right of purchase of the deceased partner's interest in the business, as at the date of his death—the computation of the value of said interest to be based on two years' purchase price of the average profits of the last three years in the date of his death.

The accounts were kept by single-entry and were made up half-yearly to June 30th and December 31st; and the statement of affairs was signed by each of the partners, as acknowledging their agreement as to the profits shown thereby to have been earned during each of these fiscal periods, respectively:

To December 31, 1902.....	\$14,320.00
To June 30, 1903.....	16,089.50
To December 31, 1903.....	14,200.50
To June 30, 1904.....	18,006.50
To December 13, 1904.....	13,453.50
To June 30, 1905.....	20,500.00

"A" died October 31, 1905; and it is agreed that his partnership ceased as at that date, and that the partnership then had as assets:

Good book debts.....	\$41,995.00
Furniture and fixtures, worth.....	3,600.00
Cash in bank and office.....	9,450.00
And liabilities amounting in all to.....	3,250.00

"A's" capital account showed at the same time \$20,000.00 to his credit, and his personal account a debit of \$2,165.00 (the latter forming part of the asset of \$41,995.00 for good book debts).

The profits for the half-year during which "A" died were ascertained at the next usual fiscal term, viz.: December 31, 1905, when they were shown by "B" and "C" to be \$26,380.00; and the administrator of "A's" estate is satisfied as to its correctness.

Make statement showing amount "A's" estate is entitled to receive from "B" and "C," without reckoning any interest on the balances of either of the partner's capital or personal accounts.

XVIII. STATEMENT OF AFFAIRS AND DEFICIENCY ACCOUNTS.

335. Of what value is a statement of affairs?

336. What connection does a deficiency account have to the statement of affairs?

337. Where should "Securities held by Partly Secured Creditors" be shown? Where should "Preferential Claims" be shown? How should accounts receivable and accounts payable appear?

338. Of what use is a deficiency account? What is the difference between a deficiency account and a profit and loss account? In the case of a concern trying to convince its creditors of the advisability of allowing it to continue business, would it be of any advantage to arrange two statements of affairs, one valued as a going concern, the other at its "break up" value? Should contingent claims be given effect in the statement of affairs?

XIX. TECHNICAL IMPROVEMENTS.

Distinguish between the day book and the journal.

Discuss the relative merits of adding and of listing machines.

Outline the advantage of a loose-leaf ledger.

Discuss the relative merits of card ledgers and of loose-leaf ledgers.

C. P. A. QUESTION: Compare a simple arrangement of accounts, as for example, capital, cash, merchandise, personal expense, profit and loss, with some other scheme of accounts expanded to meet the demands of present day requirements. Describe the possibilities and advantages of the more modern scheme.

C. P. A. QUESTION: Contrast the daybook, journal, and ledger method of bookkeeping with some more modern method. Describe the limitations of the first mentioned method and show to what extent, in what manner and for what reason it has been superseded or modified in modern accounting practice.

C. P. A. QUESTION: State your reasons in favor of and opposed to the use of card, loose-leaf and permanently bound records respectively, under various conditions and circumstances.

***ACCOUNTING PRACTICE AND PROCEDURE.**

BY ARTHUR LOWES DICKINSON, C. P. A.

I. BOOKKEEPING.

- 13. Outline the theory of double entry bookkeeping.
- 16. Explain the uses of a trial balance.
- 18. Explain the purpose of the cash book. What is the object of subsidiary ledgers and what changes are necessary in the books of original entry where the greatest advantages of their use is desired?
- 21. What are controlling accounts and how are they used?
- 22. Explain the operation of a voucher record.
- 28. Explain how a subsidiary expense ledger is operated and controlled.

II. THE BALANCE SHEET.

- 31. What is the object of bookkeeping?
- 34. In what order should the assets appear in a balance sheet?
- 35. In what order should the liabilities appear in a balance sheet?
- 38. What items should be included in a balance sheet under:
 - (a) Fixed assets,
 - (b) Permanent investments,
 - (c) Investment of reserves,
 - (d) Working assets,
 - (e) Current assets,
 - (f) Suspense debits?

- 40. Distinguish between working and current assets.
- 42. How should unissued stock appear?
- 43. Define funded debt. Why are unfunded debts an evidence of weakness?
- 44. Distinguish between current liabilities and unfunded debts. What is said in reference to depreciation?
- 46. What may properly be included under the caption "Surplus"?
- 47. How may appropriations of surplus for capital purposes become permanent capital?
- 48. Is it proper for an auditor to object to the form in which a balance sheet may have been arranged by the directors of a company?
- 49. Mention a few instances of misleading headings of accounts shown in a balance sheet.
- 52. What objections are given in reference to the balance sheet form prepared by the Interstate Commerce Commission for the use of railroads?

III. PROFIT AND LOSS ACCOUNT.

- 56. What differences may exist between a statement of earning capacity and a statement of profit or losses?
- 65. What items may properly be charged to the appropriation section of the profit and loss account?
- 67. Are profits, due to the realized appreciation of fixed assets, available for dividends?
- 72. Explain how the amount of profits available for dividends should be ascertained. Mention the exceptions to this rule, if any, in the case of banks.

IV. BALANCE SHEETS ASSETS.

- 75. What items may properly be included in the accounts representing fixed assets?
- 76. Explain how the degree of title or interest in land affects the charges to the property accounts. How does

the possible exhaustion of minerals affect the charge for depreciation of a plant used in operating the property?

77. To what extent may carrying charges be included in the cost of timber lands?

78. How should patterns, etc., be treated in the books of account?

80. Can you give any objection to the plan of combining the patents, goodwill and franchise accounts?

81. How may an increase in the values of capital assets be shown on the books of account?

82. Is it proper to spread losses due to the sale of fixed assets over a number of future years?

83. How should a 90% interest in a subsidiary company be shown on the books of a holding company?

84. Suppose the interest was but 51%, how would this affect the treatment of the account? How should the earnings and also the dividends of a subsidiary company be dealt with on the books of the holding company?

87. Explain how the fluctuation in the value of reserve investments should be cared for in the accounts.

88. Explain how reserve investments consisting of bonds or stock of the company should be treated.

89. Explain how an adjustment, to cover the changes between the cost and the market value of stores and supplies should be made.

90. How should advances to agents be treated at balancing time?

91. What may properly be included under the caption: "Expenses incurred in advance of accrual"? How may expenses pertaining to future sales be treated? Under what conditions is it proper to carry forward advertising expenses as an asset?

92. Explain how royalties redeemable out of future workings should be treated.

V. BALANCE SHEET ASSETS—CURRENT.

93. May an increase in the market value of raw material be considered as profit?

94. Is the plan of valuing goods at cost or market, whichever is lower, justified just because it is desired to show the current market value or less in the balance sheet? What objections would you advance to the plan of showing market value in the balance sheet and cost in the profit and loss account, with a reserve account to adjust this difference? (See Accounting Principles: "Reserve Accounts, Stock in Trade Fluctuations.")

95. Explain how an improper method of valuing assets affects the stated profits from year to year.

96. What are the essentials for ascertaining the correct profit of a concern? Outline a satisfactory plan of taking an inventory.

97. How should a run of logs be valued at the end of a fiscal period?

100. Mention some of the methods of apportioning overhead expense to the cost of goods manufactured. What is the objection to the plan of apportioning the overhead expense monthly in proportion to labor or labor and material?

101. What is the objection to allocating the overhead expense to the departments affected first, and then redistributing it over the product of each department? What are the objections to using a predetermined charge for overhead; (a) based on the estimated expense of a period and the estimated number of labor hours consumed, or (b) based on the estimated percentage of overhead expense to material or labor cost, or both?

102. Under what conditions may selling expenses be included as a part of the manufacturing cost?

103. What is the effect of including interest in the cost of manufacture?

104. Under what conditions may carrying charges be included in the cost of, let us say, wine which is being aged preparatory to sale?

106. Explain how uncompleted work should be inventoried so that the profits may be properly shown from year to year. (See *Accounting Principles: "Profit on Contracts"*.)

108. Under what conditions is a reserve for contingencies desirable in connection with completed jobs?

109. Mention a few of the advantages of keeping a perpetual inventory of stock. Explain how a perpetual inventory may be operated.

110. When and how should the book inventories be verified?

111. Explain how the stock should be valued at the end of each period. (See *Accounting Principles—Valuing Stock*.)

112. How should contracts covering the purchase of goods for future delivery be treated in the inventory?

113. Under what conditions would you provide reserves to care for possible excesses of inventory values?

114. What may properly be included under the heading: "Accounts and Bills Receivable"?

115. How should bills receivable be inventoried? What is wrong with the plan of setting up a reserve for cash discounts? (See *"Accounting Principles, Reserve for Cash Discounts"*.)

116. How should unissued stock or bonds be treated?

117. Why is it important to distinguish between the unissued stock of a company and its own stock which has been purchased. (For additional information on this subject see *"Accounting Principles, Treasury Stock"*.) How

should fluctuations in the value of investment bonds or stock be treated?

118. Define amortization and explain the use of the word as applied to the valuation of bonds.

119. As auditor, would you object to keeping the cash book open for two or three days after the closing date to enable a company to cover an overdraft at the bank? Why?

120. How should the construction of a railroad in China be recorded on the books of the home office in the United States?

121. What should the record of material consumed show?

124. Upon which set of books is it desirable to keep the account representing the capital assets? (See Dicksee's Advanced Accounting for a more thorough discussion of this topic.)

VI. BALANCE SHEET LIABILITIES.

128. How should discount or premium on capital stock be treated in the books of the corporation?

129. How should the redemption of capital stock be recorded on the books of the company if it has been redeemed at; (a) par, (b) a premium?

130. How should treasury stock appear in the balance sheet of a company?

131. Explain how promoters often arrange to sell stock below par even where the law specifically states that it may not be sold below par.

134. Which controls the charge to income, the nominal rate expressed in the bond, or the effective rate of money at the time the bonds are sold?

PROBLEM: Required entries covering the issuance of the following bonds and also the entries covering the first two annual interest payments:

(a) Three 4% first-mortgage bonds sold at 90 and redeemable at par, netting the investor 5%.

(b) Two, 6%, second-mortgage bonds, sold at 110, redeemable at par, netting the investor 5%.

(c) Five, 5%, third-mortgage bonds, sold at par, redeemable at a premium, netting the investor 6%.

(d) Eight, 4%, collateral trust bonds, sold at 85, redeemable at a premium, netting the investor 7%.

136. How should a saving on bonds, purchased in the open market prior to maturity, be treated in the accounts.

137. Describe the various methods outlined for determining the proper charge to income in connection with an issue of bonds redeemable at a premium but which are purchased in the open market at a discount:

(a) The effective interest method.

(b) The equal instalment method.

(c) The bonds outstanding method.

(d) The amortization method.

142. What portion, if any, of the discount on a bond issue may properly be charged to capital accounts?

143. How should unissued stock or bonds be treated in the books of account?

145. Explain how taxes should be treated. The benefits derived from the payment of taxes are received after the taxes are paid and not at the time of the assessment, hence why should a reserve for taxes be placed on the books and why would it be improper to spread the amount of taxes over the succeeding year?

146. Mention a number of examples of contingent liabilities and explain their treatment in the books and on the balance sheet as well as the necessity of providing for each contingency.

148. Explain how a sinking fund reserve, for the redemption of a debt, should be operated.

149. Under what conditions may a sinking fund reserve be considered as a charge against operations?

150. Define "Secret Reserves," and explain how they may be created and the propriety thereof.

VII. REPAIRS, RENEWALS, DEPRECIATION AND NEW CONSTRUCTION.

154. Explain how each of the following expenditures should be treated in the accounts, (1) when there are ample reserves, (2) when there are no reserves:

- (a) Addition to property.
- (b) Alterations of capital assets.
- (c) Restoration of property.
- (d) Replacements.
- (e) Repairs.
- (f) Renewals.

155. Give the rule covering the apportionment of expenditures made in reconstructing or improving works, resulting in some partially new structures as well as in substantially repairing and renewing others.

156. Give the rule covering the apportionment of indirect expense, to capital and revenue accounts, where operation and construction are carried on simultaneously.

157. What is the result of allowing a profit to be taken on construction work performed by a company's own force? Is it proper to increase the value of an asset, constructed by the company for its own use, to the market value, or to the contract price if constructed by other parties, and what could be accomplished by so dealing with the asset?

160. Outline two methods of dealing with the maintenance expenses of a railroad.

163. Which expenditures should be included under the caption: (a) repairs, (b) renewals?

164. Give two methods of treating repairs and renewals in the books of account.

167. Describe (a) the annuity method of providing for depreciation, (b) the straight line method, (c) the diminishing balance method.

168. What are the objections to the annuity method of providing for depreciation on, (a) machinery, (b) leaseholds.

169. Mention a few of the advantages of, (a), the straight line method of providing for depreciation, (b) the diminishing balance method.

171. Is an accumulated depreciation account an amount subject to investment, or is it simply an offset to the amount contained in the property account? How does your answer affect the question of interest discussed on page 171?

172. Is the argument that no provision need be made for exhaustion of property where the amount known to be in the tract at the end of the period is greater than was originally estimated and provided for, proper? In a particular case, it is found that an excessive amount has been provided for depreciation. How should this amount be adjusted to correct the charge to each year and to make a proper allowance for the exhaustion of the property during the current period? (See Accounting Principles, Adjustments of Profit and Loss Account.)

173. Under what conditions is it not considered necessary to provide for the exhaustion of oil fields, gold mines, etc.

VIII. SPECIAL POINTS IN CORPORATION ACCOUNTING.

176. Mention a few important reasons why it is necessary to prepare a consolidated balance sheet of various properties held by the same stockholders. What does a

consolidated balance sheet show? What items should be eliminated from the balance sheets of the various companies when preparing a consolidated balance sheet? How should the difference between the par value of the stock of a subsidiary company and its purchase price as represented by the books of the holding company be dealt with? (For divergent views see Accounting Principles—Investments in Stock.) In the preparation of the income account of a number of consolidated companies, what attention should be given inventories and additions to properties?

179. How should earnings of a subsidiary company, not represented by dividends to the holding company, appear on the books of the holding company?

PROBLEM

The records of a certain subsidiary company disclose the following information: Capital Stock, \$100,000.00; Surplus, at the beginning of the year, \$75,000.00; Earnings, during the year, \$60,000.00; Dividends, declared at end of year, 80 per cent.

Required the journal entries on the books of the holding company which purchased 90 per cent of the stock of the subsidiary company on January 1st for \$157,500.00.

180. Explain how the profits of a subsidiary company, made by selling its product to another of the subsidiary companies, should be cared for on the books of the holding company and in the consolidated balance sheet.

PROBLEM

COMPANY "A"—BALANCE SHEET.

Assets:		Liabilities:	
Cash	\$ 50,000	Accts. payable.....	\$ 10,000
Merchandise	80,000	(Including \$5,000	
Plant	20,000	due "C" Co.)	
		Bonds payable.....	40,000
		Capital stock.....	50,000
		Surplus	50,000
	<hr/>		<hr/>
	\$ 150,000		\$ 150,000
	<hr/>		<hr/>

COMPANY "B"—BALANCE SHEET.

Assets:		Liabilities:	
Cash	\$ 40,000	Accts. payable.....	\$ 15,000
Merchandise	60,000	(Including \$5,000	
Plant	50,000	due "C" Co.)	
		Bonds payable.....	35,000
		Capital stock.....	60,000
		Surplus	40,000
	<u>\$ 150,000</u>		<u>\$ 150,000</u>

COMPANY "C"—BALANCE SHEET.

Assets:		Liabilities:	
Cash	\$ 75,000	Accts. payable.....	\$ 10,000
Co. "A" stock.....	80,000	Bonds payable.....	100,000
(400 shares)		Capital stock.....	200,000
Co. "A" bonds.....	30,000		
(at par)			
Co. "B" stock.....	80,000		
(450 shares)			
Co. "B" bonds.....	35,000		
(at par)			
Accts. Receivable:			
Co. "A".....	5,000		
Co. "B".....	5,000		
	<u>\$ 310,000</u>		<u>\$ 310,000</u>

Required Consolidated Balance Sheet.

PROBLEM

SOURDOUGH COMPANY—BALANCE SHEET.

Assets:		Liabilities:	
Cheechako Co. stock		Bonds payable.....	\$ 100,000
900 shares at cost..	\$ 99,000	Capital stock.....	200,000
Cash	101,000		
Inventory			
(Purchased of out-			
siders)	56,000		
Inventory of stock			
(purchased of Sub.			
Co. at 10% in-			
crease over cost)..	44,000		
	<u>\$ 300,000</u>		<u>\$ 300,000</u>

CHEECHAKO COMPANY—BALANCE SHEET.

Assets:		Liabilities:	
Plant & machinery..\$	80,000	Accts. payable.....\$	20,000
Inventories	30,000	Bonds payable.....	30,000
Cash	20,000	Capital stock.....	100,000
Accts. receivable.....	70,000	Surplus	50,000
	<u>\$ 200,000</u>		<u>\$ 200,000</u>

Required Consolidated Balance Sheet after adjusting inter-company profit and caring for a dividend of 40% on the stock of the Cheechako Company. The Surplus of \$50,000 was earned since the stock was purchased by the Sourdough Company.

182. Under just what conditions may a particular organization be treated as a subsidiary company? How should the accumulated surplus of a subsidiary company be treated in the consolidated balance sheet of a group of companies, where a portion of the stock of a subsidiary company is not held or controlled by the holding company?

185. Explain how the profits of a certain company, earned before it came under the control of a holding company, should be treated on the books of the holding company; also how the dividends of the subsidiary should be treated when received by the holding company?

186. How does the date of incorporation of the holding company affect the apportionment of profits of the subsidiary company, on the holding company's books? How should a donated surplus be handled in the accounts of a corporation? Is such a surplus properly available for dividends?

PROBLEM: "X" company purchased the entire capital stock of the "Y" company at \$110,000 as of March 31, 1916, at which date the "Y" company's books showed capital stock \$50,000 and surplus \$50,000.

The accrued earnings to March 31st are estimated to be \$5,000.

Immediately after acquiring the stock, the directors of the "Y" company were instructed by the "X" company to declare a dividend of 110% on the "Y" company stock, which was done.

Required Journal entries for each of these items on the books of the holding company.

187. Is it proper to consider the excess of the purchase price of current assets over the market value as an addition to goodwill? Under what condition may losses on accounts receivable be thrown into the goodwill account?

188. How should goods purchased for future delivery be inventoried at the time of sale of a company?

IX. THEORIES AND PROBLEMS IN COST ACCOUNTING.

195. What are the objects of a cost system?

197. Mention a number of plans of distributing oncost or factory burden.

198. Is it proper to include selling cost in the cost accounts?

199. How may it be possible for a manufacturer to sell a portion of his product below the ascertained cost thereof and still make a profit by the transaction?

PROBLEM: Company "A" manufactures 100,000 pairs of shoes per year with a material and labor cost of 90c and an oncost of 45c per pair. They have an opportunity to secure an order covering 50,000 pairs for the government at \$1.25 per pair. The acceptance of this order will increase their overhead expense but \$12,500. Should they accept the order?

202. Why should interest on capital not be included in the cost of goods manufactured? Is it proper to eliminate the charge for the use of the buildings from the cost of goods?

203. Is the reference made by Mr. Dickinson to the rental of leased lines, by a railroad company, a satisfactory argument for the exclusion of rental of buildings from the cost of goods manufactured by an industrial organization? In answering this question consider that, where a railroad leases another line, the payment they make for the use of the property is usually in the nature of a guaranteed dividend on the stock of the leased line,

also that the leases are often almost a perpetuity with the result that the payments do nearly become a distribution of profits and a charge for the use of capital; and also that all maintenance and renewal charges are cared for by the lessee, the same as on his own property, to the extent that if the rental were also included in the cost of operations, the charges to this account would be excessive?

204. Give an argument against including interest as an element of cost.

206. Under what conditions may it be considered proper to consider interest as an element of cost?

208. In the preparation of statistical statements covering a comparison between production and capital invested, what items require consideration?

209. How would the inclusion of interest on capital at an arbitrary rate, in the cost of goods, affect the determining of the actual elements of cost for a number of periods for the purpose of comparison?

210. Is it proper to include a bonus to employees as an element of cost? Why?

211. Where an article is manufactured under a contract where cost is the basis of the sale price, what may properly be included as cost?

X. DUTIES AND RESPONSIBILITIES OF THE PUBLIC ACCOUNTANT.

215. In an auditor's report covering the earnings of a business, what period of operation should be covered?

217. How should unusual losses or profits be treated in a report covering the transfer value of a concern? Of what importance is an inquiry into the fluctuations of profits?

219. Why is it often improper to use the results of a portion of a year as a basis for estimating the earnings of

a complete year? How should such broken periods be dealt with? How should interest on capital be treated in a certificate covering earning capacity?

220. Of what importance is the question of salaries in determining earning capacity?

221. Explain how the continual charging of capital expenditures to maintenance accounts affects the ascertainment of goodwill, based on earning capacity?

222. What items, charged off out of profits for the purposes of reports to stockholders, may properly be included in the profit and loss account again when preparing a report covering the sale of a business?

224. Under what conditions may an accountant certify to estimates of future earnings based on contemplated economies?

225. Explain how the excessive capacity of one portion of a plant over the capacity of some other portion may affect the earnings of a plant or group of properties. Explain how the availability of raw material may affect the success of a new enterprise. Why is it desirable, when estimating the amount of future earnings, to consider the market for the intended increased output of a contemplated reorganization?

226. Of what importance is the question of future management expense in the estimates of future earnings?

227. To summarize; why is it to the advantage of the profession that accountants should refrain from giving certificates of estimated future earnings of proposed companies?

229. Mention a number of reasons why it is important to inquire into the assets of a concern even though a certificate of profits is all that is required of the accountant.

233. Mention a few of the most important features of the English Companies Act of 1908 as affecting auditors.

235. What differences exist in American and English practices in connection with the appointment of auditors?

238. Prepare an accountant's certificate covering the audit of a corporation's accounts.

239. Under what conditions may an auditor give a qualified certificate?

241. What points of difference exist in the auditor's reports covering a liquidating concern and one that is to continue to do business? How should an auditor act in case a concern he is auditing regularly is losing money and is unable to make changes that will stop the leaks?

242. Mention a few of the most common causes of insolvency.

243. Why is it usually bad policy to secure temporary loans with which to finance the acquisition of fixed assets?

245. What particular items or elements will require careful consideration when determining upon a plan of reorganization?

*** ACCOUNTING PRINCIPLES**

By Samuel F. Racine, C. P. A.

Accounting Principles is a synopsis of all of the books and certified public accountants' examination questions ever published on the theory of accounts, condensed to convenient size for the busy accounting student. The greater portion of the book is devoted to the more difficult questions on Goodwill, Depreciation, Reserves and Sinking Funds, although it is hardly possible to find a question within the scope of the book that is not answered therein; furthermore months of discussion by highly qualified accountants were given to determine the accuracy and authenticity of the numerous principles outlined, so that the student is assured of a book that is authoritative in every respect.

Innumerable C. P. A. examination questions, every one of which is carefully answered and explained in the text makes this book invaluable to the accounting student and eliminates the necessity of providing a guide for its study, however we heartily recommend it for the student who is desirous of taking up the study of the most advanced principles of accounting.

*** Published by The Western Institute of Accountancy, Commerce and Finance, Leary Building, Seattle, 1917, \$3.00. Second Edition.**

***COST ACCOUNTING—THEORY AND PRACTICE**

BY J. LEE NICHOLSON, C. P. A.

I. COST FINDING AND ITS FUNCTIONS.

21. What are the general functions of cost accounting? In what manner are the cost books related to the general books?

22. What are the functions of a cost system?

II. ELEMENTS OF COST.

24. What are the three principal divisions of production cost and into what groups may each be subdivided?

Define: (a) Direct charges.

(b) Indirect expense.

26. What items usually compose the indirect expense? How are each of the following usually distributed to the different departments:

(a) Rent

(b) Taxes

(c) Insurance

(d) Depreciation and repairs?

27. What are the two general methods of arriving at the entries for depreciation?

28. Why is it not desirable to consider the same rate of depreciation applicable to an entire plant? Explain how power cost should be ascertained and apportioned.

29. Is it proper to include a portion of the indirect expense as an element of cost of small tools? How should expenses incurred in experimental work be treated in the accounts?

30. What is the purpose of the "Over, Short and Damaged" account?

III. INTEREST IN ITS RELATION TO COST.

33. Give arguments for or against including interest as an element of production cost.

IV. PRINCIPLES AND GENERAL METHODS.

46. Distinguish between the productive labor method and the process method of oncost apportionment.

47. What may properly be included in the material cost account?

50. How should goods purchased in bulk but subject to sorting or grading be valued for the purpose of determining material cost? Explain how scrap used in the manufacture of by-products should be treated.

51. How should the labor cost on an article be ascertained, where it requires but a few moments of the laborer's time to make the article?

52. Why is it so desirable to reduce, to the lowest possible point, the amount of expense that is to be treated as indirect expense? What are the objections to distributing the indirect expense over the whole production by adding a certain percentage to prime cost?

V. DISTRIBUTING INDIRECT EXPENSE.

54. Mention a number of different methods of distributing indirect expense.

55. Explain how the direct labor method of applying oncost is operated.

56. What is the effect of this method when used in a factory where a number of low priced men operate high priced machines and where high priced men operate low priced machines.

57. Describe the direct labor hours method of oncost apportionment. What advantage does the hour method

have in connection with the distribution of items that accrue with the effluxion of time?

58. What is the direct labor and material cost method and what are the objections thereto? Describe the new pay rate method.

59. How is the old machine rate method operated and what are its limitations?

60. Describe the new machine rate method.

61. A particular machine is used but little in a department. How should the idle time be cared for?

62. Explain how the power cost should be distributed. How are the indirect expenses handled?

64. What are the limitations of the new machine rate method? What are the special features of the fixed machine rate?

66. When the fixed machine rate is used, how is the unapportioned expense treated? How may many of the undesirable features of this rate be eliminated?

67. Explain how the supplementary rate, which distributes the idle hours to the cost of the work, may prove of value. Under what conditions is the fixed rate most satisfactory? What are the objections to this method?

68. Describe a number of the miscellaneous systems mentioned.

VI. WAGE SYSTEMS.

70. What are the principal methods of paying wages? What are the objections to the day rate method of paying wages?

72. Describe the piece work method of paying wages and tell of the usual result of its adoption.

74. Describe the differential piece rate plan.

75. How does the premium plan differ from the piece work methods and what are its advantages? Discuss the bonus method.

76. Describe the "Gantt" system and tell of its advantages.

77. What is the "Strut" system?

78. Describe the contract system. Explain how the profit sharing method is operated.

VII. RECORDING MATERIAL AND LABOR COST.

80. What are the requirements of cost finding?

81. How should the material cost be recorded? Distinguish between part-finished stock and work in process. What forms are used to record the information about material?

82. What information should a purchase requisition contain and how is it used?

83. How is the purchase order used? What is the purpose of the material received sheet and how is it used?

85. Explain the operation of the stock record.

86. What advantages are derived by the use of a perpetual inventory?

87. What is the purpose of the production or factory order? Into what divisions or classes may production orders be divided?

88. Explain the operation of the sub-production order. Explain how coupons may be used in connection with production orders.

89. What advantage is derived by dividing the job into sections, each representing a particular portion of the work? Explain how the material requisition and the bill of material is used.

91. How is the accuracy of the stock record tested and how are errors adjusted?

93. What points should be considered in choosing or designing time reports?

98. Explain the operation of the self-figuring (disk) time card.

VIII. COMPILING THE COST DATA.

101. What records and reports are required when compiling cost data?

103. Explain how account numbers are used to facilitate the preparation of vouchers. What advantages are derived by the use of accounts payable vouchers?

104. Explain the operation of the register of accounts payable.

105. What is the purpose of the material received summary? How is the report of material delivered used?

106. How is a payroll prepared and what is its purpose?

107. Explain the operation of a payroll account.

108. What is the purpose of the analysis of the payroll?

109. Explain how the summary of factory expenditures is used to determine the future rate of oncost.

111. What is the purpose of a production report and what information should it contain?

113. What advantages accrue through the use of a defective work report?

114. Is it proper to include indirect expenses as an element of the cost of defective goods? What is the purpose of a cost sheet?

115. How is a progressive cost record used?

116. Explain the use of the finished stock record. Under what conditions is it desirable to use a register of sales and costs? What changes are required in the credit memoranda or certificate and in the billing and shipping where it is desired to ascertain the gross profit on each sale?

120. What accounts are usually found in the factory ledger?

121. What information should be recorded in each of the following accounts:

- (a) Labor,
- (b) Indirect expense,
- (c) Work in progress,
- (d) Raw material and supplies,
- (e) Partly finished stock,
- (f) Finished stock
- (g) Private ledger?

125. Draft entry necessary to record the following in the cost book:

- (a) Receipt of supplies,
- (b) Payment of wages,
- (c) The expenditures for indirect expenses,
- (d) Supplies used,
- (e) Distribution of pay-roll containing both direct and indirect items,
- (f) Distribution of indirect expense to jobs,
- (g) Transfer of product to stock,
- (h) Transfer of partly finished stock to operating departments,
- (i) Cost of goods sold during the period.

IX. CONTROL OF COST RECORDS.

127. How is the cost record controlled? What accounts are usually required in the general ledger when cost accounts are also kept? What information is contained in the factory ledger account?

132. What is the objection to the inventory method of determining profits? What record should be kept of salesmen?

133. How is a plant and tool record operated?

X. THE EXAMINATION OF A PLANT.

134. Give an outline of the procedure followed in examining a plant.

135. What suggestions would you make in connection with the handling of raw material?

136. What information is required by the systematizer with reference to the machinery and power? How should the labor be classified?

137. How should each of the following be treated:

- (a) Expense directly traceable to some process or department,
- (b) Depreciation of plant,
- (c) Heat and light?

139. How should leaks be guarded against?

141. Give what you would consider a satisfactory answer to the questions appearing on pages 141-154 which relate to office or plant operation.

XI. DEVISING A COST SYSTEM.

156. What suggestions can you offer covering the installation of a cost system?

158. In what way should the cost periods and the financial periods coincide?

164. What general plan should be adopted when preparing forms and designs for use in connection with the cost records?

XII. ESTIMATING COST SYSTEM.

166. What is the purpose of "estimating" cost systems and what are their advantages?

168. Explain the manner of verifying the estimated costs as determined by using the first plan described.

172. What advantages are possessed by the departmental plan of estimating costs that are not possessed by the first plan described?

175. How may the accuracy of the plan of estimating costs be determined where departmental material, labor and indirect expense are recorded? What advantage has this method over the others described?

XIII. DEPARTMENTAL SYSTEMS.

179. Under what conditions is the departmental (product) system desirable? Describe the principles and methods of the departmental system.

180. What forms are required in the operation of the departmental system?

183. Describe the operation of the pay roll account.

185. Explain the operation of the departmental system where a Work in Process account is kept in the cost ledger.

XIV. SPECIAL ORDER SYSTEM.

186. What are the limitations of the special order system described in this chapter.

194. Describe the books and forms used to record:

- (a) The purchase of material,
- (b) The receipt and use of material,
- (c) The cost data.

195. What entry is made to record the value of material used?

196. How is this system controlled?

198. Draft pro forma entries showing the operation of this system.

XV. SPECIAL ORDER SYSTEMS—PROCESS METHOD.

200. Where is the process method of cost finding desirable?

207. Explain how the indirect expense is pro rated to

machines and also how it is ultimately included in the cost of goods manufactured.

208. How is the amount of the process or machine cost determined?

211. How is the Factory account operated? What accounts appear in the factory ledger?

212. Describe the operation of each the following accounts in the cost ledger:

- (a) Raw material and supplies;
- (b) Direct labor;
- (c) Indirect expense;
- (d) Power cost;
- (e) Process cost;
- (f) Work in progress;
- (g) Finished part stock;
- (h) Finished stock.

214. Draft entries in the cost journal to:

- (a) Record the purchase of material and supplies and the payment of wages;
- (b) Delivery of material;
- (c) Application of direct labor to process cost and power cost;
- (d) Application of indirect expense to process cost and power cost;
- (e) Application of power cost to process cost;
- (f) Application of process cost to work in process;
- (g) The completion of finished or partly finished stock;
- (h) The consumption of partly finished stock;
- (i) The sale of finished stock.

XVI. PRODUCT SYSTEM.

219. How should defective work be treated?

220. Explain how variations that exist between the fixed percentage and the actual percentage may be discovered.

221. What is the purpose of the summary of production and cost? Draft entries to record the completion of an order in the cost books.

224. Explain how the factory ledger is made self-balancing.

225. How are the accounts representing the various operating departments used?

226. What entries are made in the defective work account to record the cost of defective work and the value of raw material reclaimed? Draft entries to record the following:

- (a) Consumption of raw material and labor by departments;
- (b) Transfer from one department to another;
- (c) The sale of finished stock.

XVII. PRODUCTION SYSTEM—PROCESS METHOD.

233. What information is shown on the cost sheet?

234. What accounts are required in this system that are not required in the preceding one explained?

235. What items may properly be charged to the power cost account and the process cost account?

* COST ACCOUNTS

BY L. WHITTEM HAWKINS, F. C. A.

I. INTRODUCTION.

1. What is the object of cost accounts?
2. Which set of accounts is most likely to be in error, the cost or the financial?
4. Wherein do the greatest discrepancies exist? What are the principal elements of cost? What items make up the prime cost? Which expenditures constitute the on-cost?
5. Define gross cost.

PROBLEM FOR CLASS DEMONSTRATION

Job No.	Time	Slips Time	Amount	Requisitions	
22.....	4		1.25	29.....	18.00
24.....	3		.90	27.....	12.00
26.....	8		2.20	25.....	9.00
28.....	5		3.00	23.....	4.50
25.....	4		.95	21.....	8.10
26.....	2		1.10	22.....	6.00
21.....	6		3.00	24.....	16.00
23.....	4		2.20	26.....	22.00
26.....	4		2.15	28.....	12.00
25.....	1		.40	21.....	4.00
25.....	2		.90	23.....	8.00
27.....	8		4.00	27.....	9.00
29.....	4		1.10	26.....	5.00
27.....	3		.95	24.....	8.20
22.....	5		2.00	27.....	4.20
24.....	6		3.00	26.....	7.10
				28.....	3.15
				24.....	8.15
				29.....	4.30
				24.....	8.10

Required: Labor Abstract, Material Abstract, Job Accounts in detail, Cost Summary of Completed Jobs, Job Nos. 22, 24, 26, 27 and 29 are completed, and Cost Ledger Accounts in detail. On-cost to be applied, 10 cents per hour, 10 per cent to labor and 15

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per cent to material. Indirect expense paid, to be distributed to labor hours, \$6.90, to labor cost \$3.50, to material cost \$26.52, material purchases \$400.00.

II. DIRECT WAGES IN COST ACCOUNTS.

6. What are the two classes of labor as affecting cost? What is the nature of the record usually kept by each workman?

7. What information should a weekly time sheet contain?

8. How are fines and similar deductions handled? What is the meaning of the initials "P. R." used on form 1? How is unproductive labor treated? What form does a wages abstract take? What entry is made to transfer the total of wages applied to a particular job to the job account?

9. With what account in the general books should the wages account in the cost books agree?

10. What advantages does a daily time sheet possess over a weekly sheet in so far as the laborers and cost clerk is concerned?

III. WAGES IN THE GENERAL ACCOUNTS—THE CASH BOOK.

11. What advantages accrue through paying wages up to, say, Thursday on Saturday or up to the 20th of a month on the 1st of a succeeding month?

12. What is the object of a wage book or pay roll?

14. (Refer to journal entry p. 14.) What changes, if any, would you suggest in connection with the credits to the general wages account?

IV. MATERIALS IN THE COST ACCOUNTS.

16. Distinguish between stores and stock.

17. What is the purpose of a requisition?

19. What is the object of a credit slip? What is the purpose of a material transfer and what information

should it contain? What is a material abstract and how would you proceed to prove the accuracy of entries thereon?

21. What account should be credited for the material used in the various jobs?

V. MATERIALS IN THE GENERAL ACCOUNTS.

22. What account or accounts should appear in the general books to represent the material?

23. How are the invoices treated in the cost department? What entry is made to record the sale of stores purchased for consumption?

VI. CHARGEABLE EXPENSES.

24. Define chargeable expenses. What entry is necessary to place chargeable expenses on the books?

25. How would you ascertain that all direct expenses had actually been charged to the jobs? Explain how "Specification Fees" should be treated.

VII. THE RELATIONSHIP BETWEEN THE COST ACCOUNTS AND THE GENERAL ACCOUNTS.

26. Name the additional accounts that are required in the general books upon the adoption of a cost system. Which accounts agree in both sets of books?

27. Explain the reasons why the accounts representing material do not agree. May a single journal entry be posted to both sets of books, that is, debit in the general books and credit in the cost books, or vice versa?

28. Outline the objections to carrying the cost accounts in the general books.

VIII. INDIRECT CHARGES AND ONCOST.

29. How would you suggest that the expenses be divided?

30. What constitutes oncost and into what subdivis-

ions should it be divided? How does the relative value of two classes of material, each requiring the same amount of time to manufacture and the same space, affect the manner of distributing oncost where oncost is based on material cost?

31. Can you think of another reason why it is unsatisfactory to apportion oncost to material cost? Mention a condition wherein it would be preferable to distribute oncost on the basis of working hours. What changes, if any, are necessary in the ruling of the wages abstract where this plan is used? What are the objections to the hour rate?

32. How would you apportion office oncost? Explain the effect of making the apportionment on the basis of work's cost.

33. Explain how the accuracy of the rate used may be determined.

34. Explain the difference, if there is any, between oncost and indirect expenses.

IX. HOW TO CHARGE ONCOST.

35. Is it desirable to attempt to charge oncost weekly. What entry should be made to charge the oncost and when? What entry should be made to charge the office oncost to the job? Differentiate between works cost and completed cost.

37. Explain the manner of inventorying the work in progress.

38. What is the treatment of the "Works Oncost Suspense Account" at the beginning of a new fiscal period? Is there an alternative method of treating the deferred items?

39. Outline a desirable arrangement of account headings in the general books to facilitate a comparison with the cost books.

X. CREDITS TO THE JOB ACCOUNTS.

40. What entry is made at the time a contract is completed? How is the profit or loss on the contract cared for?

41. How are various jobs, all relating to the same contract, grouped? Should the oncost be included in the cost of the first or supplementary jobs of a series or not? Should the oncost be included in the completed cost of articles made for stock? What entry is necessary to record a transfer of goods to the finished stock account?

42. Explain the use of a "finished stock transfer."

XI. COMPLETED CONTRACTS AND SALES IN THE GENERAL ACCOUNTS.

43. What information is a completed contracts account in the general ledger supposed to show? What treatment is recommended for sales from stock? Explain how the two classes of sales may be separated.

44. Is it necessary to record in the general books the transfers made from one job to another?

XII. FINISHED STOCK IN THE COST ACCOUNTS.

45. What entry is necessary to record the use of finished stock on a job? Explain the use of a finished stock requisition.

46. Is it desirable to keep the stores entirely separate from the finished stock? Why?

47. How would you proceed to close the finished stock account? What becomes of the profit or loss on sales? Is an account, operated as outlined in the text, desirable for use in determining the accuracy of inventories? Can you suggest any method of operation by which the accuracy of stock inventories may be determined?

XIII. THE RELATIONSHIP BETWEEN THE COST ACCOUNTS AND THE GENERAL ACCOUNTS FURTHER CONSIDERED.

48. Wherein do the cost accounts and the financial accounts differ?

51. Explain the reason why so many cost accounting systems are failures. If the cost accounts are not kept on the double entry principle, how may accurate information be secured covering the component parts of the accounts?

XIV. CLOSING THE COST LEDGER.

55. Is it possible to take a trial balance from a cost ledger provided it has been properly kept? Having prepared a trial balance, how would you proceed to close the ledger and what account would the various other accounts be closed into? Which, if any, accounts would remain in the cost books?

57. With which account in the general ledger should the manufacturing account of the cost ledger correspond? Would there be any objection to debiting the various job accounts and crediting material, labor, etc., in the general books, without resorting to the aid of cost books? Explain.

59. Explain the reason why, although certain of the accounts agree in both sets of books, they appear on opposite sides of the ledgers?

PROBLEM

The books of Factory A, the product of which is charged to the main office of the X. Y. Z. Co., at factory cost, shows the following facts January 1, 1910:

Cash (imprest fund) \$500.00; raw materials, \$17,688.51; wages unpaid and distributed, \$2,348.67; goods in process, at prime cost, \$62,258.61; plus \$11,352.75 for factory expenses and \$9,007.50 for management charges; finished goods, \$45,290.20.

The invoices for purchases of raw material for the year amounted to \$78,375.65; wages paid, \$133,041.27; management charges, \$53,695.00; factory expenses, \$36,967.08. The cash receipts for one year's rent of loft were \$1,200.00 and for 11 months' sale of power, \$330.00, the twelfth month being unpaid.

The raw materials consumed for the period amounted to \$64,188.33; management charges distributed \$55,761.90; factory expenses distributed to cost amounted to \$43,033.23. There was also a loss on machinery replacements of \$107.50.

The finished product output for the year amounted to \$324,583.43, including all costs. The transfers to the main office were \$338,297.90.

At the close of the period, December 31, 1910, there remained unpaid and distributed to goods in process the regular factory pay roll for three days, amounting to \$2,857.93, and also 1,500 hours of operatives' overtime at an average rate of 45 cents per hour, payable on a basis of 2½ hours' overtime as the equivalent of 3½ hours' regular time.

Raise all the ledger accounts affected and show final trial balance.

COST LEDGER

(O) GOODS IN PROCESS		(E) STORES CONSUMED	
S	62,258.61	324,583.43	V
R	64,188.33	35,154.17	O
Q	55,761.90		
P	43,033.23		
U	134,495.53		
	359,737.60	359,737.60	
O	35,154.17		
(P) FACTORY ONCOST		(S) MANUFACTURING	
S	11,352.75	324,583.43	V
S	37,210.23	49,047.09	S
	43,033.23		
	5,529.75		
	48,562.98		
	48,562.98		
		373,630.52	
		373,630.52	
		49,047.09	
(Q) OFFICE ONCOST		O-P-Q	
S	9,007.50	82,618.86	P
S	55,117.57	37,210.23	Q
	8,363.17	55,117.57	R
	64,125.07	64,188.33	U
	64,125.07	134,495.53	S

COST LEDGER—Continued

(T) OFFICE ONCOST SUSPENSE		(V)	FINISHED GOODS	
Q	8,363.17	O	324,583.43	\$
(U)	LABOR	(W)	FACTORY ONCOST SUSPENSE	
S	134,495.53	P	5,529.75	
Goods finished, including oncost				\$324,583.43
Less oncost \$43,033.23 and \$55,761.90				98,796.13
* $35,514.53 \div 225,788.30 = 15.73$ Rate used.				\$225,788.30
* $53,695.00 \div 225,788.30 = 23.79$ Rate used.				$35,154.17 \times 15.73 = 5,529.75$
* Actual expenditures used instead of estimated expenditures.				$35,154.17 \times 23.79 = 8,363.17$

TRIAL BALANCE.

A Cash.....	\$	500.00	\$
B Raw Material.....		31,875.83	
C Goods in Process.....		49,047.09	
D Finished Goods.....		31,575.73	109,225.72
F Home Office.....		30.00	3,802.93
J Power Unpaid.....			
L Pay Roll.....			
	\$	113,028.65	\$ 113,028.65

XV. COMPARING THE COST ACCOUNTS AND GENERAL ACCOUNTS.

60. Which accounts agree in both sets of books? How should stores be treated in the general ledger to facilitate comparison with the cost books? Could this be accomplished by closing the inventory, purchase and sales accounts into a separate account, and then carrying the difference forward to the manufacturing account, or is it necessary that a perpetual inventory be maintained? How would you test the accuracy of the rates of oncost? How are office expenses, incidental to manufacturing, usually treated?

63. Is the record of stores purchased for consumption contained in the cost books? If not, explain how it should be treated.

64. May the cost books be arranged to contain administration and similar expense items if desired? If so, explain how it may be done. If such a plan were followed, would the cost books display the gross profit?

XVI. STORES ACCOUNTS.

67. What is often the defect in the system of stock control and how may it be remedied?

69. Outline the purpose and operation of a stores ledger.

70. Prepare what you believe to be a model stores ledger card. Arrange for the use of tabs to denote the condition of stock; provide spaces to contain information in reference to the name and size of the article, maximum and minimum quantities desired, quantities used, ordered or received, and prices thereof, also reference numbers referring to the original records. How would you proceed to test the accuracy of the stock record? Is it necessary that all cards and stock be reconciled simultaneously? Explain.

71. Mention some of the advantages of keeping a stock record as outlined in the text. How does the installation of a stores ledger usually affect the financial condition of the concern? To what extent is it advisable to classify the material recorded in a stores ledger? Outline the advantage or disadvantage of an extensive, elaborate classification of stores.

72. Is it necessary to deal with values in a stores ledger? Why?

XVII. FURTHER CONSIDERATION OF MATERIAL.

74. Is it preferable to use a material abstract or do you believe it advisable to post direct to the job account in the cost ledger?

75. Outline a plan covering the treatment of oil and waste in the accounts of a manufactory.

76. Which should be used in the cost books, the cost or market value of goods?

77. Presuming that an arbitrary price is used in costing, what disposition would be made of the differences which will be found to exist?

79. What advantages accrue through requisitioning engine room supplies in the same manner as is usual when ordering goods for use on a job?

XVIII. FURTHER CONSIDERATION OF ONCOST—DIFFERENTIAL RATES.

80. Is it ever desirable to use several different rates of oncost at the same time? Why? What changes would a differential rate necessitate in the cost ledger?

81. Are any changes necessary in the general books when a differential rate is adopted? Define the term "Machine Oncost." Explain how the principle is applied.

82. What are its advantages over other plans of on-cost apportionment?

83. Define "Foundry Oncost" and explain its use.

84. Why is it desirable to keep the foundry as an entirely separate business and to bill its product to the other departments as delivered?

XIX. SINGLE COSTS, OPERATING COSTS, PROCESS COSTS AND MULTIPLE COSTS.

85. Define single or unit costs. Is it necessary to keep a set of cost books where but a single product is manufactured?

86. If not, how would the cost per unit of production be ascertained? Define operating cost. Explain what is meant by process cost.

87. Wherein does single cost or unit cost differ from process cost? Define multiple or job cost and mention a few of the conditions wherein its use is applicable.

88. What means would you take to verify the accuracy of oncost where the cost of each job is determined as soon as a job is completed? In what manner would you proceed to determine the value of material lost in process, and of what use are your figures after they have been secured? Certain of the material used or lost in process may have a value as scrap. What entry should be made to give effect to this value?

XX. PATTERNS, DESIGNS, MOULDS, ETC.

90. How would you proceed to determine the cost of patterns?

92. What treatment in the cost books would you give patterns designed for a particular job? What should be done with stock patterns? Explain how you would proceed to have their cost absorbed by the various jobs.

93. Explain how the cost of stock patterns is charged

to the pattern account in the general books; viz. which account is credited and why?

94. Explain how the depreciation on patterns should be treated. As an auditor what special consideration would you give the pattern account if it shows a steady increase from year to year? Why?

XXI. SOME SPECIAL FEATURES — SYMBOLS AS JOB NUMBERS.

95. What treatment should be given expenditures incurred in connection with the construction of plant buildings? May oncost be properly included in the cost of a building constructed by a firm for its own use?

96. After the building has been completed, what entry should be made in the cost ledger to close the cost account? Draft the entry to place the cost of the building on the general books.

97. Presuming that this building costs more than it could have been purchased for, is it necessary to reduce the account to the amount of the contractor's quotations? How are expenses incurred in experimental work treated in the cost books?

98. Discuss the treatment of the cost of manufactured loose tools in the cost books and also in the general books. Under what conditions is it advisable to use symbols instead of job numbers?

99. Mention a few of the letters often used as symbols and explain their significance. If a contract has been completed but has not been accepted may the entire profit on the job be considered as actual profit available for dividends? (See Accounting Principles — Inventory, Partly Manufactured Goods.)

100. What provision, if any, should be made to protect a particular year against some unforeseen loss that may result from a guarantee against defective work performed

during the previous year? What portion of the anticipated profit on jobs in progress may be taken credit for at the end of a fiscal year—the job being two-thirds completed?

101. What treatment is recommended for handling goods billed to branches? Presuming that goods at a branch office are inventoried at 20 per cent above cost, how should they be entered on the books of the home office when closing the books at the end of a fiscal period?

102. Discuss the treatment of special plant, purchased for a particular job, giving consideration to the entries required in both sets of books.

103. Discuss the advantages or disadvantages of making up parts in advance of actual requirements.

104. How should defective or spoiled castings be treated in the accounts?

XXII. THE COST LEDGER AND JOURNAL.—(SOME DETAILS.)

107. Of what advantage is a private contract ledger and what is the method of its operation?

110. Suggest a method of handling direct charges which will eliminate the necessity of keeping a record of them for each set of books.

XXIII. PRICE BOOK AND STORES INDEX.

Explain the arrangement of a stores index.

112. Discuss the treatment of cash discounts.

113. Is interest on capital a proper charge to cost? Is interest on borrowed money properly included in the cost of goods? How should depreciation be treated in the cost books? Suggest a desirable plan of numbering jobs where they originate in two or more different offices.

117. How should advances to employees be treated? How should sales of scrap be treated?

PROBLEM

The books of a manufacturing concern, operating under a system of cost accounts, show the following conditions at the opening of the fiscal year. Raw material in storeroom, \$15,621.42; factory pay roll, applied and distributed but not paid, 2 days, \$831.78; partly manufactured goods, at prime cost, \$63,888.44; and the further value of \$8,037.17, to cover factory burden, also \$12,074.92 to cover management charges; finished wares in stock at total cost of \$21,656.01.

The financial operations during the ensuing year include: purchases of raw material, \$80,416.45; factory pay rolls, \$125,793.90; factory expenses, including wages not applied to prime cost, \$24,846; management expenses \$38,100.00; interest paid on loans, \$1,200; income from investments, \$5,004.

The manufacturing operations during the year comprehend: raw material issued on requisition for consumption, \$79,820.34; wages applied and distributed to manufacturing cost, \$120,250.40, and to factory expense, \$5,959.39, included in the sum stated in the preceding paragraph.

Finished goods transferred from factory to warerooms, at prime cost, covering materials, \$78,542.58, and labor, \$118,333.75. The trading operations during the same year comprehend: cost of goods sold, \$251,949.90, proceeds from goods sold, \$302,339.88.

At the close of the year the partly completed goods included, in addition to prime cost, the further elements of value to cover factory and management expense in the amounts respectively of \$8,439.02, and \$12,676.66, and factory pay roll for three days, amounting to \$1,247.67, which has been applied and distributed, though not due till the close of the current week.

The basis of apportionment of Oncost or Overhead Charges was as follows: Factory expense, 20 per cent to material and 80 per cent to labor; management expenses, 30 per cent to material and 70 per cent to labor.

The transactions of the previous year in round amounts were used in calculating the current year's apportionments, viz.: material, \$75,000.00; labor, \$115,000.00; factory expense, \$24,000.00; management expenses, \$36,000.00.

Open the general ledger accounts that control the cost accounts; show the operation of each and the net profit resulting; also calculate the percentage to be added to each \$1 of material and of labor to give the total cost.

GENERAL LEDGER

(A) RAW MATERIAL		(D) FACTORY PAY ROLL	
E	15,621.42	79,820.34	J
E	80,416.45	16,217.53	A
	96,037.87	96,037.87	
A	16,217.53		
(B) PARTLY MFG. GOODS		(E) ADJUSTMENT ACCOUNT	
E	63,888.44	120,446.18	AB CD
E	8,037.17	80,416.45	A
E	12,074.92	125,793.90	D
	84,000.53	18,886.61	F
J	88,198.53	38,100.00	G
		1,200.00	H
		54,265.26	L
(C) FINISHED GOODS		439,108.40	
E	21,656.01		
J	258,318.74		
	280,474.75		
C	28,596.13		
		131,764.52	E

* 251,949.90 — 71.28 Errors in Cost Books = 251,878.62.

GENERAL LEDGER—Continued

(F) FACTORY EXPENSE		(J) MANUFACTURING			
E	18,886.61	18,886.61	J		
(G) MANAGEMENT EXPENSE					
E	38,100.00	38,100.00	J		
(H) INTEREST ON LOAN					
E	1,200.00	1,200.00	L		
(I) INCOME					
L	5,004.00	5,004.00	E		
(J) MANUFACTURING					
A	79,820.34	258,818.74	C		
D	126,209.79	88,198.53	B		
F	18,886.61				
G	38,100.00				
B	84,000.53				
	347,017.27	347,017.27			
(K) TRADING ACCOUNT					
C	251,878.52	302,339.88	E		
L	50,461.26				
	302,339.88	302,339.88			
(L) PROFIT AND LOSS					
H	1,200.00	50,461.26	K		
E	54,265.26	5,004.00	I		
	55,465.26	55,465.26			

COST LEDGER

(A) JOBS IN PROGRESS		(C) FINISHED GOODS	
H	63,888.44	78,542.58	F
D	79,820.34	118,333.75	H
G	120,250.40	5,026.73	
		11,310.13	
	263,959.18	118,333.75	
		19,761.74	
		25,915.09	
A	67,082.85	258,890.02	
		258,890.02	
(B) FACTORY ONCOST		(D) RAW MATERIAL CONSUMED	
H	8,037.17	5,026.73	C
G	5,959.39	19,761.74	C
H	18,386.61	8,439.02	B
F	344.32		
	33,227.49	33,227.49	
B	8,439.02	79,820.34	D

TO DETERMINE THE ONCOST

Rate used—Factory Oncost

\$ 4,800 to material (20%).....	75,000 = .064
19,200 to labor (80%).....	115,000 = .167

\$24,000 $\$ 78,542.58 \times .064 = \$ 5,026.73$ $118,333.75 \times .167 = 19,761.74$ **Management Oncost**

\$10,800 to material (30%).....	75,000 = .144
25,200 to labor (70%).....	115,000 = .219

\$36,000 $\$ 78,542.58 \times .144 = \$11,310.13$ $118,333.75 \times .219 = 25,915.09$